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The Management REVIEW

SIGNIFICANT postwar changes in salesmen's compensation plans are heralded in the report of a survey by R. E. Runzheimer digested in this issue. Straight commission seems to be losing favor among the executives surveyed, only one-fourth of whom feel that the commission basis provides satisfactory long-range control of sales efforts. Several major criticisms are often leveled at the straight commission basis—e.g., it results in "cream-skimming" territorial coverage; it does not permit sufficiently close control of personal selling efforts; it makes more difficult the modification of territorial boundaries and reassignment of sales personnel. On the other hand, in industries where straight commission predominates it has frequently proved more practical than other bases of compensation.

Further findings of interest to sales managers are presented on page 443 (**What's Ahead in Paying Salesmen?**).

WITH many companies contemplating relocation or decentralization of their plants in the early postwar years, geographic differences in productivity and labor costs will be of increasing significance to management. Some of these differences are discussed in detail in an abstract on pages 435-37. For example, prewar statistics indicate that labor costs were lower in both the South and West than in the North, though in some industries wage differentials were more than offset by higher productivity in the North. An outstanding contrast in regional productivity is afforded by the glass container industry, in which "value added per man-hour" was 72 per cent higher in the West than in the North.

A CONCERTED attack by management on "war-swollen" costs is called for by a feature abstract on page 420 (**Where to Trim Those War-Swollen Costs**). Readers will find here a helpful check-list of expense items which were allowed to get out of line during the days of cost-plus contracts, the excess profits tax and disregard for "10¢-dollar" costs.

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THE MANAGEMENT INDEX

General Management

Royalties for Unions

SHALL industry and the consumer help defray the cost of running the unions? Shall the purchasers of industry's products pay an involuntary tax, over and above federal social levies, to provide extra security for special groups of workers?

These are the basic questions back of union demands for "royalties" and other forms of forced employer "contributions" to union welfare funds. This type of demand is cropping up with increased frequency. Is it a flash in the pan? Or is it a "sleeper" which bids fair to rank among outstanding objectives that labor will pursue in the coming years?

Management cannot lightly dismiss today's trend toward welfare payment demands. They may shape up as more, much more, than a temporary "fringe" evasion of wage stabilization.

The trend was launched when the American Federation of Musicians demanded and won a "royalty" payment for "the relief of unemployed musicians" on the sale of phonograph records and radio transcriptions. The movement gained strength when the United Mine Workers presented, then dropped, a demand for a royalty of 10 cents a ton on coal in the anthracite negotiations last spring.

Moreover, the real crux of the recent strike of New York newspaper handlers was a variation of the royalty idea. The union demanded payment by the publishers of 3 per cent of the payroll to a union "welfare" fund. This was the issue on which negotiations broke down, and it is still unsettled.

A similar demand, for 2 per cent of payroll, is a feature of at least seven recent newspaper strikes called by the International Typographical Union, which apparently has made a definite national policy of seeking this type of payment as a major objective. Further, a C.I.O. trend in the same direction was noted recently when the United Auto Workers' executive board authorized a demand for a 3 per cent employer payment to a union "social security fund" as one of the points to be raised in negotiations.

Finally, recent opinion studies suggest that an overwhelming proportion of labor leaders look with favor on the royalty idea or some variation of it, and that the public tends to be sympathetic toward any demand linked with the generally worthy aims of worker security.

The outward innocence of the "welfare" type of demand makes it doubly difficult to combat. No one wants to appear in opposition to such humanitarian things as health protection, unemployment insurance and old-age benefits. However, every new revenue which a union can coax

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into its coffers for one purpose represents, finally, just that much more revenue which it can devote to other purposes. Moreover, the whole approach of the welfare demand tends to glorify the union at the expense of the employer; it throws the obligation wholly on one, the credit on the other.

Suppose, further, that the welfare agreement stipulates that benefits are to be paid only to "members of the union in good standing." Doesn't that artificially strengthen the union's position in the plant? And isn't the union asking the employer to foot the bill? That stipulation isn't inconceivable.

Finally, these enforced welfare payments would, in many instances, have to be passed on by the employer to the consumer. This would certainly be true of the 10-cents-per-ton royalty on coal. Thus, willy-nilly, a textile worker earning $30 a week might be forced to provide for the old age of a coal miner making twice as much. And every coal consumer would be asked to support the political activities of a union of which he may, or may not, approve.

No sensible management man will quarrel with the principle of providing adequate health and old-age protection to employees, nor should he object to contributing some part of his profits —preferably on a mutual basis—to this praiseworthy cause. Most employers will probably agree also that they have a responsibility in the financial readjustment of employees displaced by technological developments. Many excellent dismissal compensation plans do exist in industry today.

But that's a far cry from arbitrary fixed payments made at the demand of unions under conditions which inevitably aggrandize the union at the employer's (and sometimes the public's) expense.

Factory Management and Maintenance, September, 1945, p. 90:7.

Facts and Fallacies of Foreign Trade

THE American manufacturer who looks for the first time to foreign markets as possible outlets for his product is probably motivated by one or more considerations. His plant may have undergone wartime expansion, increasing his capacity to produce goods formerly manufactured, or wholly new items, to an extent greater than his potential American market. He may be experiencing an understandable desire to step up his volume and scope of business, fostered perhaps by somewhat vague estimates of huge postwar exports. He may have been among those manufacturers who supplied commodities for foreign destination via Lend-Lease orders or Foreign Government Purchasing Missions, and he may now seek means of continuing the outbound flow in peacetime. There are also business men who rightfully strive through export operations to protect trade-marks, patents and copyrights in foreign countries.

For these or other reasons, the domestic manufacturer may well be interested in foreign sales. His first question, presumably, is whether or not there exists abroad a demand for his product sufficient to result in satisfactory sales volume. The answer to this question may be obtained more easily than is commonly imagined. His first

step should be a request for information to the regional office of the Bureau of Foreign and Domestic Commerce of the U. S. Department of Commerce. This office is equipped to supply him with the export sales record of his particular product. If his product has not been exported in volume in the past, he can obtain information concerning comparable products. Assuming the item under investigation is of a standard nature, available statistics should afford some guidance as to future export prospects. While foreign trade statistics are looked upon by exporters and importers as valuable business tools, experienced exporters penetrate somewhat further into market potentialities than statistical data can take them. Newly developed industrialization and other recent changes in each foreign area must be studied and carefully evaluated.

For example, let us consider a pertinent trade development in Brazil. Prior to the war, Brazil was a large-scale buyer of American and British cotton textiles. During the war her textile manufactures were expanded to a degree that supports the prediction that at some future time Brazil may import only special, highest-quality textiles. As a matter of fact, when the enterprising Brazilians are able to purchase the required modern equipment, they may well become competitors of the United States in the other Latin-American markets. As peacetime production is restored in other countries, of course, the mill owners of Brazil will probably find it necessary to forego their large wartime margins of profit. These earnings were recorded despite the fact that equipment may have been decidedly antiquated. For instance, at one factory which was inspected in 1943, British equipment almost 100 years old was still in use, though crudely and repeatedly repaired.

The business man turning for the first time to foreign markets will encounter various factors affecting procedure and cost to consumer that he has never before had to reckon with. There is the matter of import duties, or tariffs, which may raise the price at which goods may be profitably sold. Local laws and regulations in each foreign country differ widely, and familiarity with them must be gained before business can be undertaken safely.

Let us suppose that the manufacturer has a new product without an export history. Potentialities cannot be gauged in the usual manner, so a special survey to determine foreign market possibilities will be an absolute requirement. While the facilities of the Department of Commerce are excellent in many respects and are being expanded rapidly, they are not geared to make hand-tailored investigations of this sort. Private agencies probably will have to be employed on a fee basis, since it would hardly seem advisable to proceed without an adequate survey. Established American export merchants, survey services, and consulting engineers are among those who may be engaged to conduct a complete market analysis of foreign areas.

After the product's export salability has been determined, the next step is to decide what means are to be employed to assure the manufacturer the highest possible volume of sales. If the market potential warrants such a move, the manufacturer may engage the necessary personnel and establish an export division, or a separate export subsidiary. He would be well advised to employ an export manager of established capabilities, and to lean heavily upon his choice. The manu-

facturer who is a novice in export and who nevertheless attempts to direct foreign operations will only jeopardize his own investment. In certain circumstances, the services of an export merchant or independent combination export manager may be preferable to the establishment of a separate export subsidiary or division. Under other circumstances, best results might be obtained through installation of a local plant in a foreign country. Generally speaking, plants of this type should be run in cooperation with local business men and local capital. Another possibility is to grant manufacturing rights to a local foreign company on a fee basis. It should always be borne in mind, if the final decision is to engage in straight export selling, that local tariff conditions or other considerations may dictate the need for shipping finished products to some countries, semifinished articles to others, and perhaps bulk goods for local packaging to other areas.

Investigation could be made regarding participation in a Webb-Pomerene Export Association, under the Export Trade Act of 1918. This Act was passed by Congress to clarify the situation which had arisen through doubt and fear of the applicability of the Sherman and Clayton anti-trust acts to combinations for the purpose of extending our export trade. The Act was designed to permit Americans to combine in associations for selling abroad, to enable these associations through their combined efforts to compete on an equal basis with foreign cartels and other organized groups, and to make it feasible for small enterprises to enter foreign markets on an equitable basis. Participants in such an association may be competitors or non-competitors. Large savings may result from a uniform sales association of this kind, using perhaps a joint advertising or distribution organization with agreed-upon sales prices. However, participation in such organizations should be carefully checked by competent legal counsel.

There are several important tax-exemption provisions in the Internal Revenue Code favorable to foreign business which deserve the careful scrutiny of foreign traders and their attorneys. Of particular note is the Western Hemisphere Trade Corporation, a form of commercial organization specifically authorized by Congress and granted exemption from surtax if various specified qualifications are met. The Tax Committee of the National Foreign Trade Council has issued an instructive study of Western Hemisphere Trade Corporations.

One foreign trade fallacy which by now should have been exploded for all time still seems to persist. Temporarily, loans and investments abroad can finance foreign purchases of our goods, but let us fully realize that our future export volume will be achieved at the expense of American taxpayers and private investors if we do not exercise sufficient intelligence to permit other countries to earn the dollars with which to carry on commerce with us. Ultimately, foreigners can reimburse Americans only with the proceeds of our purchases from them, or with profits from services performed by them for us. As the strongest trading nation in the world, we must exhibit leadership in this field.

Another fallacy concerning foreign trade may be found in the unsupported view that credit risk is greater in foreign than in domestic sales. Repeated surveys by representative in-

ternational traders have shown that credit risk in foreign sales is almost negligible and, as a matter of fact, foreign credit losses are lower than those in the domestic market.

There is a tendency in some quarters to regard export business as a means of disposing of surplus production at a discount. Well-founded export manufacturers would quickly challenge this fallacy. Although most companies, it is true, do not separately report profits on foreign sales in their regular statements, some important concerns do. Colgate-Palmolive-Peet Company is one of these, and, on the average, Colgate's foreign profits, percentagewise, are normally about twice its domestic earnings.

From an address by JOHN QUIRK before the Trade Association Executives in New York City.

Where to Trim Those War-Swollen Costs

AS American business gears itself for efficient postwar operations, it becomes immediately apparent that unit costs must come down—and fast! They are the measure of our ability as a nation to swing into an era of bigger markets and high-level employment. And unit costs—more than anything else—will determine any company's ability to meet intense competition. While all costs have risen and deserve prompt management attention, this article presents some reminders about items that should be trimmed first. These suggestions are based on recommendations of leading executives and cost experts.

Labor costs are up sharply, not so much because of wage increases as of unproductive and inefficient workers, and high pay for any and all. Here are five practices that have too often become a part of operating procedure:

1. Upgrading of unqualified workers merely to hold on to them or to sidestep wage ceilings.

2. Too liberal bonus and incentive plans as devices to satisfy wage demands under the freeze.

3. Unnecessary overtime for employees who deliberately "worked" it that way, again a device to dodge wage ceilings.

4. Too much tolerance of wasted materials and rejects, because it was impossible to obtain properly skilled workers.

5. Too much unchecked loafing on the job, resulting from company inability to replace loafers with productive workers.

The solution to high labor costs is not lower wages but increased care in selecting workers, in training, and in developing productivity.

Incentives are a sound management tool; but they must be geared to increase production, not merely to provide hidden wage increases.

Materials prices rose during the war, and their costs went up still further as wasteful buying habits crept in. But, from now on, users can again buy wisely, in the largest economical quantity, from the lowest-cost supplier, and can reinstate effective testing procedures.

Maintenance and supervisory labor costs have advanced out of proportion to production increases. However, machines and equipment no

longer need be run until a breakdown occurs; a true preventive-maintenance program is again in order. Plant improvements must now be measured in terms of cost reduction or increased output, not esthetic values. Moreover, the time has come when supervisors can be more carefully selected, better trained, and kept constantly on their toes.

Here are some of the excessive expense items that will need immediate attention:

1. Entertainment rose sharply in the 10¢-dollar era. And customers will continue to look for free gilt-edge amusement unless management cracks down on lush expense accounts, often appropriately dubbed "swindle sheets."

2. Travel costs moved up as business men were forced to make frequent trips to Washington, and to send expediters in pursuit of materials and supplies. But many wholly unnecessary trips and some unofficial salary boosts may be concealed in the totals.

3. Special services to customers and to company executives became a significant expense item for many companies. Buying theater tickets, train reservations, scarce merchandise may be part of doing business in war; in peacetime, it is a sign of careless attention to costs.

4. Telephone bills have reached the level of major expenditures in the desperate effort to round up materials or parts, to do business with Washington. However, bills for long-distance calls serve as a reminder that, while it's easier to phone than to write, writing will frequently do the same job at considerably less cost.

5. Petty graft to employees of suppliers skyrocketed as companies fought for a bigger share of scarce materials. Anyone seeking a bribe should be promptly reported to his employer.

6. Such miscellaneous expenses as legal and professional fees, and donations, have been over-generous in a period of easy money. Industry certainly shares a responsibility to support worthy charities; and fees to lawyers, accountants and consultants should be adequate. Yet the expense must bear a close relation to ability to pay.

No cost will come down of its own accord. Day-to-day scrutiny by management, insistence that all expenses be fully justified, everlasting pounding on closer cost control are the only things that will do the job. *Modern Industry,* October 15, 1945, p. 82:4.

NEW AMA INDEX ISSUED

A completely revised edition of *The Management Index,* featuring both a subject index and detailed catalogue of AMA publications of the past 14 years, has just come from the press. The *Index* has been enlarged to include all AMA conference proceedings, special research reports, and issues of PERSONNEL published since 1932 and through October, 1945. If used regularly in conjunction with the annual indexes of THE MANAGEMENT REVIEW and PERSONNEL, and with supplementary catalogues which will be issued periodically, the *Index* will provide a dependable guide to the most important current management literature.

Copies of *The Management Index* have already been distributed to company official representatives and will be mailed on request to other interested individuals.

Office Management

Incentives for Clerical and Indirect Workers

THE average increase in production per man-hour which accompanied wage incentive plans installed during the war years has been about 40 per cent. The corresponding increase in wages has been 15-20 per cent, and the decrease in cost 10-15 per cent. In disclosing these facts, the Management Consultant Division of the War Production Board has shown that by far the greatest increases were brought about by well-engineered and time-studied plans applied to individual jobs.

Wage incentives for either direct or indirect workers should provide increased wages to workers for effort in excess of the normal effort which corresponds to pay by the hour. There has recently been an increasing demand on the part of labor for incentive payment for indirect workers. This has resulted from the fact that workers on direct production jobs for which little training is needed are often, by the addition of substantial incentive earnings, receiving more total wages than skilled indirect workers. The direct workers receive the extra money only because of greater-than-normal demand upon skill and effort, and care should be taken not to destroy the effect of the incentive plan simply by paying more money to non-incentive workers regardless of increased skill and effort.

The wisest course for the manufacturer to pursue is to determine the specific functions of indirect workers and the time allowances necessary for their performance. This can sometimes be done as readily as in the case of direct workers, and often with more pronounced effect.

Let us say a company has decided to steer a course between the arduous and time-consuming—though more permanently correct—procedure of thorough engineering study and crude and disastrous makeshifts. In that case it becomes necessary to analyze the indirect operations on a group basis, using such methods improvement and time study as circumstances permit.

The next step is to determine the predominating factors which best measure the efforts of each group. These factors should be reasonably measurable by units, and time allowances should be set up in terms of those units.

The factor which most accurately measures the total productive effort of the direct workers of a plant is "total direct standard or time-allowed hours." Regardless of the complexity of the product, this is an over-all common denominator. It is also true that in many groups and departments the "total direct standard hours" are a reasonably good measure of the necessary hours of the indirect labor serving the group. This means that it may be practicable to establish by careful study and analysis a standard ratio between "direct standard hours" and "indirect standard hours."

Let us say that the normal ratio in a particular instance were 10,000 direct hours to 5,000 indirect hours, or two to one. This may be thought of as the productive units of effort per hour of indirect labor. If the actual ratio increases above the standard because the same indirect labor contributes a larger effort or if the same direct effort is served by fewer

indirect labor hours, then a bonus, proportionate to the percentage increase over the standard ratio, could be paid to indirect labor.

Obviously, if the above method is employed, significant changes in types of products, operations, methods, materials or equipment demand that studies and adjustments be made for both direct and indirect jobs. Entirely new indirect functions and even groups may be added, and old functions may be eliminated. In these latter cases great care must be exercised to add or subtract the proper number of "standard" indirect hours.

Moreover, it should be understood that, in most instances, one standard ratio of direct to indirect hours does not apply literally to different rates of plant activity. A certain number of indirect workers—e.g., watchmen, janitors, storekeepers, etc.—must be retained even as plant activity approaches zero.

Another solution to this problem was successfully adopted by a Connecticut company. Its clerical force felt left behind in the race for earnings, and good clerks were difficult to secure. There was no time to study each job thoroughly. Instead of merely tying the clerical departments to direct standard hours by ratios, a budget which varied with activity was established for each clerical department. This budget was used as a control over the actual expenses of the department, but to afford elasticity of work transfer and to prevent interdepartmental friction the separate budgets were integrated and compared with the total actual clerical labor payroll each month to determine the single bonus percentage to be added to the base rates of each clerical worker.

The activity which determined the variable budget was based upon two factors in each department, each weighted 50 per cent. Since the company had accurately determined production standards for all its direct factory operations, it was felt that the total standard hours produced by the factory could be applied as a general measure of over-all office activity. In addition, one other activity factor was selected for *each* department as measuring best the amount of work handled by that department. Among these additional factors were: order department—sales orders received; billing department—shipping memos issued; payroll department—total employees; planning department—production orders issued.

Immediately following the installation of the plan there was an increase of 14 per cent in productivity, accompanied by an increase in wages and a decrease in clerical cost.

By J. W. Nickerson. *Connecticut Industry,* October, 1945, p. 6:3.

• SEVERAL YEARS AGO a firm in western Canada raised its clerical efficiency 29 per cent by substituting flat desks without drawers for all drawer desks. After this move, things could be found when they were wanted, because every night office trucks took away in trays all papers on desk tops and stored them in a vault. Items not in their place could not be filed properly. This gave clerks reason to check their desks daily.

When desk drawers were removed, they were found to contain an astonishing array of miscellany, including old rubbers, stuffed fish and underwear.

—Business Management 9/45

Reports to Office Employees

THE Research Committee of the Office Management Association of Chicago has completed a special survey covering the use of company reports to employees. Following are some of the Committee's salient findings:

1. The survey indicates that the trend is definitely toward providing more complete information to employees regarding the why and wherefore of individual jobs, company progress, and the company's products.
2. It was found that 64% of the respondents provided office employees with printed statements concerning company policies that affect the employees.
3. 74% of the companies encourage office employees to familiarize themselves with the history, products, achievements, goals, etc., of the company by keeping them informed on such matters.
4. It is the practice among 68% of the companies to inform office employees of new products or services introduced by the company.
5. Office employees are encouraged to "talk up" the company's industry by 62% of the companies.
6. 12% of the respondents employ motion pictures to show the company's position in the business world to office employees.
7. House organs are used as a means of reporting to office employees by 72% of the companies.
8. In controversial matters, involving employer-employee relations, 22% of the companies attempt to inform office employees of the company's position by means of the printed word.
9. 32% of the companies publish an annual financial report for office employees, similar to that issued to stockholders.

Do Your Accounts Require Monthly Statements?

THE economical practice of eliminating monthly statements to certain customers, adopted by Greenlee Brothers, Rockford, Ill., and others,* has been followed successfully since 1933 by the Westinghouse Electric Corporation (formerly Westinghouse Electric & Manufacturing Company).

At that time printed notices were sent to accounts, requesting that they indicate whether regularly monthly statements were required. Only 3 per cent of the open accounts indicated that statements were desired each month.

In May, 1935, Westinghouse X-Ray Company, whose customers were doctors, hospitals and distributors, made a similar move; the results in this case were that only 7 per cent of the accounts wished monthly statements.

Since then, the Westinghouse X-Ray Company has been absorbed by the parent organization. At present we are furnishing statements to less than 5 per cent of our customers, even though all have been advised that statements will be submitted if desired.

From this experience covering more than 12 years, added to such later experiences as that of Greenlee Brothers, it would seem quite evident that less than 5 per cent of the customers of any company which issues invoices rather than sales tickets (as in the case of department stores) would require monthly statements.

—R. C. Neaidengard, Director—Office Methods Division, Westinghouse Electric Corporation

* See The Management Review, August, 1945, p. 302.

The Cost of Job Evaluation

A SUCCESSFUL program of job evaluation eventually pays for itself in increased morale, efficiency and production. The War Labor Board's experience shows that most such programs have been accomplished with a total expenditure of *one cent or less per hour* as a plant-wide average for all employees. Some cases have required more, but rarely if at all has the initial cost exceeded five cents.

—Nathan P. Feinsinger before the Colorado Labor Institute

Personnel

Management Revisions of Union Agreements*

DIFFERENCES in labor agreements from the viewpoint of what employers have or have not yielded to unions, in matters other than wages, are readily apparent in any group of contracts that one chooses to examine. This is especially true if they are compared from the standpoint, for example, of how well management functions are secured to the employer, the severity of modifications imposed upon him, and the loopholes that give a union a voice in decisions which management alone should make.

It is true that these features of a labor agreement cannot be regarded as a yardstick of fundamentally satisfactory labor-management relations in the plants that the contracts cover, because in companies covered by the most liberal contracts (in terms of concessions granted by the employer) the most chaotic conditions may exist, and good relations may prevail in plants covered by the most tightly written agreements. Or the situation may be reversed. Obviously, then, a labor agreement is effective in producing harmonious labor relations only to the extent that it is backed up by the good faith of the union and the employer—a good faith which is nourished by intelligent personnel policies on the part of management and by a cooperative and enlightened union leadership.

In recent months an increasing number of employers have begun to assume more critical interest in their labor agreements. They have begun to realize that collective bargaining has hitherto been pretty much a one-way street, with all the responsibility imposed on the employer and very little on the other party to the contract. In other words, employers have decided that, if collective bargaining is to be called bargaining, it should assume more of the aspect of a *two-way* street. This new interest on the part of employers has been pronounced, and the number of labor agreements which employers are seeking to revise in this new light is doubtless large.

An outstanding example is the agreement between Ford Motor Company and the United Automobile Workers, C.I.O. The company has requested 31 modifications in this agreement, which when written was hailed by the U.A.W. as the most liberal in the automotive industry.

A summary of the demands by the company for revisions in the agreement—which have been requested after a history of 773 work stoppages since the contract was signed in 1941—is presented here. While these revisions may have little or no application to other labor agreements, and while "concessions" from unions should be demanded only in the light of individual experience, the revisions requested in the Ford contract at least suggest areas for scrutiny by management in other industries.

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* By the Editor.

MEMBERS OF BARGAINING UNIT

1. A more definite and broader statement concerning personnel excluded from the bargaining unit coming under the jurisdiction of the C.I.O.

2. A clause that the union will not attempt to organize or accept into membership employees in the excluded categories, and that it will give the company commitments from the C.I.O. that it will not permit any union chartered by it to organize employees of these categories or accept them into membership.

3. A clause that neither the company nor the union will interfere with or restrain or coerce employees into joining or refraining from joining the union.

UNION RESPONSIBILITY FOR STOPPAGES

4. Proposal that the union present a plan to be incorporated in the agreement which will insure company security through the exercise of union responsibility; further, that this plan provide effective guarantees against work stoppages and for increased productivity on the part of members.

RIGHTS OF MANAGEMENT

5. Extension and clarification of the clauses covering the prerogatives of management, including an express understanding that all rights not specifically modified by the contract are retained by the company.

REDUCTION IN UNION COMMITTEEMEN

6. A proposal that the number of union committeemen be greatly reduced and that they be paid by the union; and that specific provision be made for adjustments in the amount of union representation in the event of major changes in employment levels.

GRIEVANCE PROCEDURE—FOREMAN FIRST STEP

7. Proposal that an employee first present his grievance verbally to his foreman, with an opportunity for the latter to adjust it, before calling upon the union to intervene on his behalf.

8. Modification of the grievance procedure to provide that, failing settlement in the lower levels, the grievance shall be negotiated by the union building committee with a management building committee; and, failing settlement at that step, shall be negotiated by the union plant committee with the management plant committee; and, failing settlement at that step, may be appealed directly to the umpire.

SENIORITY

9. Proposal that preferential seniority of union committeemen and officers be restricted to permanent layoffs.

10. The definition of the period of temporary layoffs and recall by operations to be 90 days instead of 30.

11. Elimination of "better jobs with equal pay" from definitions of promotions.

12. Proposal that all employees transferred to jobs in excluded categories shall be deemed to continue to accumulate seniority in the unit from which transferred.

13. Proposal that provision be eliminated that no temporary demotions or transfers from excluded classifications will be made within 60 days prior to layoffs.

14. Proposal that the layoff provisions in the contract be modified to provide expressly that, under certain circumstances relating to the productive efficiency and effective operation of the plants, seniority shall be a secondary consideration in selecting the employees to be laid off and the primary considerations shall be knowledge, experience and ability.

15. Proposal that demotions will be made on the basis of merit and ability and, where these are equal, on seniority.

16. Proposal that the seniority list shall be made up every 90 days rather than every 30 days.

17. Proposal that seniority be broken by (a) over-stay of leave and violation of provisions relating to leaves, (b) 12 months' consecutive unemployment; further, that union approval of the settlement shall not be prerequisite to loss of seniority in connection with settlements because of total disability.

LEAVES OF ABSENCE

18. Proposal that (a) leaves of absence will be granted only if approved by foreman and employment office; (b) absences will be granted only for emergency reasons when services of employees are urgently needed; (c) leaves for personal reasons will be permissive, not compulsory; (d) employees shall not work in other positions, including self-employment, unless agreed to by the company during leave period.

19. The number of employees on leave by union request will be limited to one in every 1,000 in the categories of personnel covered by the agreement.

PREVENTION OF STRIKES

20. Proposal that a new provision be included which will effectively prevent either strikes or other interferences with production on the part of the union and the employees for the duration of the contract.

21. A proposal whereby the union undertakes to reimburse the company for any damages the company may suffer by reason of violations of the provision prohibiting

strikes or other interferences with production.

BULLETIN BOARDS

22. A proposal that no notices shall be distributed or posted on company property by or on behalf of the employees or the union except on the duly authorized bulletin boards, with all notices approved and posted by the company. Wilful violation of this provision to be sufficient cause for the elimination of the bulletin boards.

COMPANY RULES

23. A proposal whereby the union agrees that its members will obey the rules and regulations of the company as published and will recognize that the company has the right at any time to adopt reasonable rules and regulations not in conflict with the agreement.

TRANSPORTATION

24. Elimination of existing provision that company pay the transportation fares and travel time for employees assigned to work in plants outside the general locality of the plants in which they are normally employed.

FOREMEN'S WORK

25. A proposal to provide specific and reasonable rules governing performance of production work by foremen, recognizing that foremen must be permitted to do such work as is necessary to the proper performance of their jobs and maintenance of an uninterrupted flow of production.

TERMINATION

26. A proposal that present contract be rewritten to make the contract as amended terminable at the end of one year on notice by either party, instead of on 30 days' notice.

UMPIRE'S JURISDICTION

27. Proposal that the umpire adjudicating a dispute shall not have jurisdiction to decide any question where the parties would not be fully protected from liability to third persons in following his decision.

28. A proposal that the umpire shall not have power to decide any question within the exclusive prerogatives of the management, but shall have due regard for such prerogatives and so construe the agreement that there will be no interference therewith except as they may be specifically conditioned by the agreement.

29. A proposal that the union will not seek, or permit its members to seek, by any means other than the grievance procedure to bring about the settlement of any issue or dispute subject to the umpire's jurisdiction.

CALL-IN PAY

30. A proposal that the call-in pay provision be amended to make it specifically understood that the company shall not be liable for call-in pay in the event of labor disputes occurring at plants of suppliers which cause interruption in production of the company's plants; further, that the clause should contain explicit understanding that employees voluntarily absent at the time general notification is given of a shutdown or partial shutdown shall not be entitled to call-in pay; and further, that the company may avail itself of any employee to whom it is required to pay call-in pay in any type of work for the four-hour period or any portion thereof at his regular rate.

VACATIONS

31. A proposal that vacations be proportioned to the amount of work actually performed by the employee during the preceding year and that the 45-day allowance for absenteeism be reduced to 30 days.

The Ford Company has advised the U.A.W. that these modifications represent only major changes which the company desires to make in the contract and that further amendments may be submitted for discussion during negotiations.

As time passes, it will be interesting to observe how many companies follow suit in seeking similar revisions in existing union agreements—revisions that will be calculated to place greater responsibility upon unions and union leadership. Clearly, responsibility is the principal commodity that unions can give in exchange for what they receive, and it is likely that the concessions which most employers will seek in the future will come under this heading.

• INDUSTRY FOR VETERANS, INC., a Chicago organization which is seeking pledges of jobs for returning servicemen, has already lined up 435 firms in 16 states. These firms, employing 500,000 wage earners, have pledged that they will try to maintain a minimum 25 per cent of their postwar employees from among veterans.

—*Business Week* 8/11/45

Meeting Worker Trouble at the Source

WHEN worker trouble cannot be met *at its source* and *at its start*, indications are that the twin evils of over-specialization and over-centralization are at work. If an important problem arises in a branch plant, for example, and local managers who do not have the authority to resolve it quickly must temporize until it can be cleared with top executives who are miles away, something is out of kilter in the organization.

While detailed reports covering a local problem may be sent from one stratum of management to another, the "feel" of the problem—frequently the decisive factor—often is not properly communicated up the line. For most labor problems hinge no more upon tangible factors than upon intangibles. Hence, as treatment comes to require more and more reference up the line to some geographically or psychologically distant top, the chances of delay and misinterpretation naturally increase. Clearly, first aid for worker sore spots is needed. Here are some suggestions:

1. Speed up intra-company "communications." Use "long distance"—also statistics—freely for quick information about the loca[illegible]tion's tangibles, but distrust t[illegible]n both for getting its intangibles, its "feel."

2. Beware of official insulation. Retrain (or transfer) the private secretary or assistant who considers it his or her main job to make it almost impossible for anybody to see the boss. Ditto the "yes, yes" line associate or staff specialist who fears to give unwelcome information or advice.

3. Put company policies into writing, defining each officer's responsibilities and authorities and clarifying exactly how line and staff are expected to work with each other.

4. Retrain (or transfer) the specialist or other officer who neither teaches the man most directly concerned with the problem how to solve it nor enables him to give the right answer quickly but, instead, always persists in handling it himself.

5. Encourage every associate and subordinate to add to his special technical know-how the utmost concern for justice and fairness as well as expedition. ("Want of care," so Ben Franklin put it, "does us more damage than want of knowledge.")

6. Beware the rigidity of organizational "chartitis." Set up informal procedures whereby subordinates (especially foremen) can make an occasional or emergency end-run around their immediate superior, making sure that the end-runner does not suffer reprisal at the hands of the "end-runnee."

7. Whenever possible, talk things over with the subordinate in his own office or town. There he's at his best because there he's closest to his problems, instead of at his worst—you know where! (The farther away the subordinate is, the less dependence should be put on specific orders and instructions, and the more on his intelligence and judgment.)

8. So long as a good executive or administrator is "a man paid to make wise decisions," a company will develop capable officers only by affording its personnel at every level the maximum opportunity for practice and experience in decision-making.

Like charity, good industrial and good public relations begin at home.

BY WHITING WILLIAMS. *Factory Management and Maintenance*, October, 1945, p. 114:3.

An Incentive Plan for Foremen

A CAREFULLY worked out plan of production incentives whereby foremen and minor supervisors concerned with factory operations must share the responsibilities and objectives of top management has greatly boosted output at the Aircraft Screw Products Company. In addition to increasing output, the plan has done a gratifying job of developing a cooperative and enthusiastic production team.

The incentive system, adopted by the company in 1942, was designed to secure maximum coordination between production supervisors and to encourage initiative and responsibility on their part. In brief, the plan provides that a comprehensive and detailed production schedule be set up monthly. If the schedule is successfully met, each production supervisor receives a monthly production bonus in cash. The size of the bonus is determined by a formula based on percentage completion of the production schedule.

Three considerations are important in setting up a monthly production schedule. First, it must satisfy the company's production and inventory requirements and delivery commitments. Second, it must be attainable in a practical sense. Finally, it must be sufficiently tough to call for sustained executive push, interdepartmental teamwork, and a reasonable showing of ingenuity and initiative.

The monthly production schedule is developed systematically through the following procedure:

(1) During the early part of each month, a list of all items to be produced during the following month is prepared in the Planning and Production Department. This list is culled from the calendar of delivery commitments to customers and indicated shortages in important inventory items.

(2) This list is then restated on machine-load analysis forms. On the latter, a breakdown of facilities employed in manufacture of each item is set forth. Thus, for a scheduled quantity of a specified part, number of lathe-hours, milling-machine hours, etc., are calculated. Special operation-time tables facilitate this process. When machine-time analyses of all items are added, an over-all summary of machine-hour requirements is obtained.

(3) The latter is checked against the calculation of available machine-hours. Discrepancies between machine-hours required and machine-hours available are reconciled, perhaps by eliminating items from the schedule or by specifying alternative manufacturing methods.

(4) With the monthly production program thus outlined, each component item is individually scheduled. For this purpose, the month is divided into three 10-day periods. Each item is assigned a completion date within one of the 10-day periods, to form 10-day production quotas. Every effort is made to coordinate schedule dates of the various items so as to minimize setup changes and down-time on machines.

At this point, the entire production schedule is reviewed to assure, first, that company commitments are properly covered and, second, that the factory is able to meet its assignments.

(5) A Planning Committee, consisting of the Director of Planning and Production, the Chief Engineer,

and the Sales Manager, meets. The production schedule is studied in the light of the company's delivery commitments and customers' needs. After a thorough analysis, the Sales Department may request that certain items be rescheduled to enable earlier deliveries to certain customers. Likewise, the Engineering Department may request that the timetable on other items be set back to give additional time for working out engineering details. The production schedule is adjusted, so far as possible, to conform with such requests.

(6) A Production Committee then meets to consider the practical aspects of meeting the schedule. This Committee consists of the Director of Planning and Production and all foremen and department heads concerned with production. In the process of reviewing the schedule, members of the Committee point out real or potential bottlenecks, lack of equipment, tools, jigs and fixtures, related to particular items or processes. In most cases, these questions do not necessitate any important revisions in the production schedule. Usually, they may be satisfied by devising means for meeting the problem.

(7) Except for such modifications as may subsequently be required by the day-to-day receipt of new orders of varying priority, the final monthly production program is thus completed and finally typed.

The monthly production schedule, serving as an over-all objective, is then translated into incentive values so that monthly accomplishment may be measured. Because items manufactured vary widely in selling price, dollar value rather than physical units completed is employed as the measuring unit.

This procedure is simple. Each item included on the production schedule is valued at selling price. The values of all items on the program are totaled, giving a gross value to the monthly program. The completion value of each item is then computed as a percentage of the gross value of the program.

The proportion of each item completed in accordance with schedule indicates a completed percentage of the entire program. Thus, 1,000 pieces of part A190-4 calculates to 1.08 per cent of the value of the entire program. If 750 pieces are completed, 75 per cent of 1.08 per cent, or .81 per cent, of the entire program, is considered complete.

By adding all percentages of completion corresponding to the .81 per cent figure derived above, a percentage completion of the entire program is determined.

In order to keep incentive directed toward meeting schedule as precisely as possible, full completion credit is not given unless an item is finished within the 10-day period assigned by the schedule. If an item is scheduled for the first 10-day period of a month but is not completed until the second 10-day period, 20 per cent of its completion value is deducted. If it is not completed until the third 10-day period, 40 per cent of the completion value is deducted. In making these computations, no excuse, however legitimate, is acceptable for not meeting a completion date.

Moreover, no credit is given for parts produced in excess of quantities scheduled. The presumption is that production overages detract from the factory's ability to do a 100 per cent job on other scheduled items. Thus,

were there any incentive to produce overages, production results might tend to become distorted in relation to requirements.

To qualify for a monthly production bonus, the factory must complete at least 80 per cent of the value of the production schedule. If the percentage is less than 80, no bonus is paid. However, for each 1 per cent in excess of the 80 per cent that is completed, one dollar is added to the basic production bonus which each foreman and department head receives.

No production supervisor is awarded a special or individual bonus. While, for a good reason, when bonuses are earned by the production team a department head may not be rewarded, the incentive system operates as an "all or none" proposition. This emphasizes the importance of interdepartmental teamwork. It also serves to prevent any one department from "holding up the works." When one foreman sees bonus prospects restricted by the failure of another to carry his responsibility through, the former loses no time in bringing this failure to the attention of the Director of Planning and Production. On the other hand, one foreman will often go out of his way to help another so that completion of a job may be realized.

As soon as a production schedule is finally developed, it is posted on a bulletin board in the office of Planning and Production. Completion values of all items are indicated. When an item is passed through the factory, it is checked off the schedule.

At the same time, a progress chart is set up and posted. This chart indicates, cumulatively, bonus prospects during the course of the month. It is kept up to date on a daily basis. Moreover, the chart indicates cumulative progress of each of the various categories of production that comprise the over-all program. In this way, any lag may be almost visually traced to the delinquent production category, department or process.

By Eugene M. Lang. *Mill & Factory,* August, 1945, p. 144:6.

Staging Successful Cafeteria Meetings

PERSONNEL managers and program directors in plants which lack adequate auditoriums may find interesting tips in the story of how Curtiss-Wright Company, St. Louis, Mo., combined a staggered cafeteria schedule and sound system so successfully that cafeteria meetings became an institution.

The programs originate in the main cafeteria (seating 1,900) and reach 1,600 other employees in widely separated eating places. Since lunch periods are staggered, the talks must be repeated, but only during a two-hour period.

A space is cleared in the center of the main lunchroom and a spotlight installed. Wires near the ceiling are handy for suspending banners or posters for current campaigns. An efficient sound system is essential, of course, to this kind of rally.

The type of entertainment varies, but programs follow a definite pattern. A master of ceremonies works out a script for whatever campaign is undertaken. One of the company's musical units—which include a military band, dance orchestra, and hill-billy band—provides the musical background.

Groups of workers come into the cafeterias at 15-minute intervals and hear the entire program, the only difference being that speakers may be presented shortly after their arrival or after they have been there 15 minutes.

Whatever the topics to be discussed, a little more than half the program is usually devoted to musical entertainment.

—*Supervision* 8/45

Handling Shop Grievances

THE heart of the union agreement, it has often been said, lies in its grievance procedures. Certainly management and workers alike stand to gain from the operation of a communications system which brings difficulties at the bench to the attention of responsible authorities. Yet experience testifies abundantly that the best *formal* machinery of adjustment does not necessarily guarantee shop order. To realize the full potentialities of grievance machinery, we must conceive of adjustment procedures not only as the heart of the union agreement but as the very heart of shop relationships.

The distinction is crucial. For grievances are inextricably interwoven not only with objective shop conditions but with the whole texture of subjective shop relationships. The effectiveness of grievance machinery must be evaluated, therefore, not by reference to contractual clauses alone but in terms of all that preceded their introduction and of all that conditions their continuing application.

Each complaint should be regarded as a symptom revealing the state of health characterizing relationships. And each complaint should be handled through the clinical approach to grievances and the grievance machinery—an approach that views complaints through the functioning processes of shop behavior by which men work together. In contrast, the present approach is legalistic.

Dissatisfactions among the men at work are fixed within relatively static categories of causation, chiefly by reference to written clauses of a contract current for a stated period of time. They are "reduced"—a revealing word—to writing; they are delimited by labels that record them as disputes over vacations, or wage rates, or overtime, or work conditions, or whatever the specific claim may be. If the protest does not fall clearly within the purview of some defined, accepted job right or regulation, it is thrown out of court. If, on the other hand, it does relate to current shop law, it will be debated according to approved legalistic procedures under the established machinery of joint conference and appeal. And time and again everything may be neat and orderly in the adjustment of a grievance—save the behavior of the aggrieved.

Workers with grievances are, of course, affected by the arbitrary standards by which complaints are accepted as "valid" or rejected as "imaginary." Just as management and unions forge the clauses of the agreement into a tool for sifting out legitimate from illegitimate grievances, the workers adopt these same clauses as sanctioned forms of expression for all manner of dissatisfactions. If only wage complaints, protests against transfers, shift assignments and changes in workloads, or other "just" causes are accepted as legitimate, employees often will unconsciously disguise quite varied fears and resentments in the sheep's clothing of the so-called valid complaint. When strong emotions are denied an outlet for expression in their own terms, they find ways of utilizing some other outlet. That is why it is so important always to remain aware of the powerful negative emotions that are inescapable components of grievances—the sense of injury, of injustice, that mobilizes and then is fed by hostilities, fears and resentments. No complaint, to put it bluntly, will ever be completely or effectively shut off or dismissed. It may be driven under-

ground, in the temporarily silenced individual or the deceptively acquiescent shop, only to reappear sooner or later, recast in sanctioned demands if possible or, if not, in shop unrest, walkouts, slowdowns, turnover, absenteeism, lack of discipline, clique hostility, and so on.

Use of the clinical approach to the grievance does not affect the basic aim of grievance procedure, which always remains, of course, the promotion of efficient production. It will not even transform in any fundamental way the steps by which treatment is initiated. Instead, it will modify and expand prevailing procedures until orderly handling of complaints utilizes not only the law of the agreement but every instrument of control that psychological and social insights make available.

Thus the first task before the foreman or steward to whom the complaint is presented is to get the facts. This means more than merely hearing the story of the complainant. It may involve consultation with a whole department, or even the investigation of conditions in another mill, through the machinery of the national union. In addition, management's side of the story is needed to complete the picture. After the foreman has marshaled all the available facts for testing the objective merits of a claim, he should next determine exactly what kind of grievance he is facing. Before he takes action—and action should be taken on *every* grievance he receives—he should ask himself the following questions: Has the complainant been involved in grievances before? If so, what settlements were made? If the complaint involves a group, is that group composed of employees who often seem to act together? Is there some formal, organizational reason why they all should press the claim? Does any one of them seem particularly active in it? Does the aggrieved employee show feelings that seem excessive or out of line with the situation? What kind of feeling? Does some factor in connection with his job seem to be rousing fear or resentment in him? Is the complainant facing any trouble outside the shop?

The investigation of a complaint, then, should not be considered complete until these two highly important bodies of facts have been compiled: (1) the evidence by which the foreman or steward can decide whether the grievance submitted to him presents a valid case, within the terms of the agreement, and (2) such data as may indicate the degree to which factors of personality, feelings, sentiments, group alignments and so on, underlie its genesis or threaten to complicate its handling.

At first encounter, the clinical approach may appear to project heavy burdens upon foremen and stewards, and also upon higher company and union officials. Can we ask busy people to engage in exhaustive analysis of the context within which each grievance is generated? Foremen and stewards might be expected to meet only the simpler demands of such continuous alertness to the factors of human relations. On the other hand, personnel managers, higher-ranking company executives, and union officials may well be asked to shoulder the requirements of deeper insights.

One source of difficulty is the common procedure by which the complainant is asked to submit his grievance in writing, before the matter has even been discussed with him. When the complainant is handed a form and told to state his grievance in clear short terms, isn't he being invited to state his trouble in terms of some sanctioned

and more or less common kind of grievance, rather than cramp into a few lines a description of some complicated, underlying emotional grievance which he himself may not fully understand or cannot express?

There is a final consideration which the administrator must keep in mind: The better he knows workers, supervisors and union officials as individual people, the more he understands informal bench groups, shop cliques, union factions into which they associate themselves, and the more clearly he realizes how changes within and without the shop community reflect themselves in the emotions and sentiments that motivate shop behavior—to that degree will he be able to handle grievances adequately, and thereby also guide shop relations to serve his administrative purposes. By BENJAMIN M. SELEKMAN. *Harvard Business Review,* Summer, 1945, p. 469:15.

Job-Hunting GI's

AS a large segment of the American labor force is leaving the employ of Uncle Sam and joining the ranks of private industry, the question arises: What kind of jobs are GI's looking for? Army surveys show that five out of six soldiers have pretty definite ideas about their postwar jobs. Nearly two-thirds of them plan to work for someone else, and most of those will return to their former occupations. But only about a third will work for the same employers.

Businesses of their own beckon nearly 10 per cent of all Army men, according to the surveys, and a similar number want to buy farms. Nearly all, however, lack sufficient capital, and they universally underestimate the investment needed to start a business or buy a farm.

If veterans' job hopes are fulfilled, there will be a big-scale migration in the first few postwar years. Negroes intend to shift from the South to the Northeast in large numbers. Many white enlisted men hope to move to the Far West.

—*The Wall Street Journal* 9/10/45

• ONE SOUTHERN CALIFORNIA MANUFACTURER has hit upon a means of dispensing with time cards and time clocks. The company simply locks the gates after the workday starts and stops. A record is kept only of those who are late, admitted by pass, or who work overtime.

—*Forbes* 10/1/45

PERSONNEL CONFERENCE

A Conference of the Personnel Division of the American Management Association will be held on Wednesday, Thursday and Friday, February 13-14-15, 1946, at The Palmer House, Chicago.

Production Management

Regional Aspects of Productivity and Labor Costs

MANY manufacturers are contemplating expansion or relocation of their factories after the war through the purchase or lease of surplus properties; others are planning to construct new plants. It has been estimated that $4.5 billion will be spent during this fiscal year for plant, equipment and alterations. Nearly 30 per cent of the outlay will be for plants. In dollars, this expenditure for plants is about three times the prewar rate and 35 per cent above the 1929 peak. The relative man-hour output and wage levels in the various geographic areas thus become increasingly important, since differences in labor costs affect profit possibilities.

Regional statistics of output per man-hour and labor costs are drawn from records of individual plants situated throughout the United States. Differences in plant experience are caused by dissimilarity in employing technological advancements and in the use of the factors of manufacturing. These factors include the type of manufacturing process, the rate of daily operation, and the amount and utilization of capacity in an individual plant. Their influence may be sufficient to cause unequal productivity and labor cost among plants using identical technology. The nature of the labor supply and the efficiency of management are other controlling forces.

The general level of wages and the wage policy of individual plants directly influence labor costs. A generally low "prevailing" wage level in one area as compared with another may offset a relatively small output per man-hour and thereby effect a unit labor cost that allows for competition between regions. Inversely, a high wage level may offset relatively high productivity experience and cause an unfavorable inter-regional comparison of labor costs for plants located in that area.

Current data are not available on relative regional productivity and labor costs. Some conclusions, however, may be drawn from earlier studies of average hourly earnings and value added by manufacture per man-hour. (Value added by manufacture represents that portion of the value of product which has been added in the factory proper by the manufacturing process. It is calculated by subtracting the cost of materials, supplies, containers, fuel, purchased electric energy, and contract work from the selling value, f.o.b. factory, and approximates the net value of manufactures.)

Plants located in the western portion of the United States generally created in 1939 a larger net value per man-hour in the manufacturing process than did plants situated in the North or South. Value added per man-hour in the glass container industry was 72 per cent higher in the West than in the North. Other industries in which the value added per man-hour was more than 30 per cent greater in the West than in the North were: knitted outerwear (55

per cent), pulp mills (46 per cent), alloying, rolling and drawing of non-ferrous metals (46 per cent), cereal preparations (44 per cent), work clothing except shirts (40 per cent), motor vehicles (37 per cent), paper and paperboard mills (33 per cent), and cement (30 per cent). Value added per man-hour in six of these nine industries (the knitted outerwear, cereal preparations and work-clothing industries are exceptions) was also higher in the South than in the North.

Northern manufacturing industries, on the whole, produced a greater value added per man-hour of labor input than did the South. In the 28 industries for which a North-South comparison is possible, the output value of 19 was favorable to the North. In the cane-sugar industry, $2.42 of net value per man-hour was added in the northern factories as compared with $1.60 in the South. Outstanding contrasts in value added per man-hour also existed in the production of knitted outerwear (North, $.97; South, $.67), blast-furnace products ($2.40—$1.76), petroleum refining ($3.98—$3.02), distilled liquors ($3.87—$2.97), and flour and other grain-mill products ($2.96—$2.28).

Labor costs in 1939 were generally lower in the West than in the North, although the average hourly wage in some instances was favorable to Northern manufacturers. In 12 industries, higher wages in the West than in the North were more than offset by the relative amount of net value created in the western factories. For example, glass-container manufacturers in the West paid 24 per cent more in hourly wages than those in the North, but these western factories created 72 per cent more net value per man-hour. In the pulp mills, average wages per man-hour were 73.9 cents in the West and 59.8 cents in the North; value added per man-hour, however, was $1.82 and $1.25, respectively.

In six of the industries—cereal preparations, meat packing, petroleum refining, rubber tires and inner tubes, primary smelting and refining, and motor vehicles — average hourly wages were lower in the West than in the North, while value added per man-hour was greater. In the cereal-preparations industry, average hourly wages were 62.9 cents in the West and value added per man-hour was $6.94; in the North, 68.7 cents was paid per man-hour and only $4.82 of unit value was added in the manufacturing process.

Labor costs were higher in the West than in the North for flour and other grain-mill products, clay refractories, non-ferrous metal foundries, cast-iron pipe and fittings, electrical appliances and distilled liquor. In these industries, average wages per man-hour were relatively high in the West, as compared with the North, for the amount of value added per man-hour.

A North-South comparison indicates that labor costs were higher in the North than in the South for most of the industries studied. All the 28 industries under analysis had a higher average wage per man-hour in the North. Only six created sufficient net value per man-hour to offset the wage differentials and thereby make labor costs lower in the North than in the South. These six industries were distilled liquors, knitted outerwear, work clothing except shirts, petroleum refining, clay refractories and blast-furnace products.

Comparison of western and southern factories shows about the same relationship as that of North and South. Higher hourly wages in the West than in the South were reflected in higher labor costs because the differentials in value added per man-hour were smaller than in hourly wages. *The Conference Board Business Record*, August, 1945, p. 267:4.

Salvage Program Saves Money and Materials

METHODS of materials conservation have become practically a science in the plants of the Goodyear Aircraft Corporation, Akron, and are an important factor in lowering production and maintenance costs.

Within three years this company's labor force had grown from 100 to more than 34,000 employees. This enormous expansion was accompanied by mounting costs for leftover or discarded materials. The need for organized conservation became imperative.

It was deemed of prime importance in organizing a good conservation program to obtain the interest and cooperation of the workers and supervision. To do so, committees were organized including management, labor, maintenance, engineering, and Army and Navy representatives. By advertising the necessity for conservation through posters, billboards and the company's house organ, the employees came to realize that waste was costly to the war effort as well as to the company, and that conservation was to be accepted as part of their jobs.

Next, a branch materials salvage department was created in each plant, all reporting to a centralized department. Each branch is the "watchdog" of its plant, alert to avoid unnecessary waste.

Collection drums are provided throughout the plant, conveniently located to collect waste and scrap materials. Colors painted on the drums indicate their specific purpose. For example, a drum painted orange is for aluminum only, brown denotes steel, and black, waste and rubbish.

Segregation of aluminum scrap has run between 96½ and 98½ per cent to the specification analysis. This has been due in large part to the excellent cooperation of production supervision in the segregation of waste materials at the source. All drums are inspected when they are received in the materials salvage department and graded either good or bad. This report is given daily to production supervision.

In the wheel and brake division, magnesium scrap must be separated according to alloy, and dry and oily chips must be kept separate. Another critical item in this division is cast-iron chips. They are used in controlling the magnesium fires, which are quite frequent. After the fire is extinguished with cast-iron chips, the mixture of magnesium and cast-iron chips is shoveled up and put through a magnetic separator which sorts out cast-iron chips for the control of future fires.

Except for magnesium (because of the fire hazard), the drums of materials are sent to the central salvage building, a unit devoted wholly to specialized equipment designed to handle salvage rapidly and efficiently.

Here, usable pieces are stored. Scrap is cut when necessary and pressed into 25-lb. briquettes. Floor sweepings are put through a magnetic sorter which separates the accumulation into five classes—steel parts, dust, rubbish, paper and aluminum. This one machine is capable of taking care of all floor sweepings for all plants in one eight-hour shift.

An analysis for a typical month shows that, out of 23,964 pounds of floor sweepings, 5,257 pounds of aluminum rivets, 2,492 pounds of mixed aluminum, and 4,794 pounds of mixed steel are reclaimed.

Two paper balers are used to take care of all the paper picked up in the plants. Paper treating confidential matters is put through a shredder before it is baled. Paper scrap collected in a typical month includes 99,822 pounds of corrugated paper, 124,082 pounds of mixed paper, and 9,526 pounds of kraft paper—233,430 pounds in all.

Cast-off lumber is gathered from all plants and is cleaned up and put back into use. For example, cast-off pieces of plywood are retrimmed and used to make aluminum packaging cases.

A sizable saving has been effected by a rivet-sorting section consisting of four machines—one for sorting and removing small pieces of aluminum scrap from rivets, one for sorting by diameter size, another for head-type classification, and the fourth for length. Three operators can handle the daily flow of mixed rivets with ease. To reduce the mixing of rivets on the production lines, reclaimed rivets are packaged in cellophane bags in small, reclassified lots.

Another machine sorts bolts and a variety of hardware. Straightening bent drills and putting them back into production is still another salvage operation. One man is kept busy on this operation alone. Weak dry-cell batteries are recharged.

In cooperation with the local Society of the Blind, the company has been able to employ a number of blind workers in the salvaging of special rivets and hardware not sorted on machines. On certain operations, they are able to make a satisfactory separation by their sense of touch.

An important operation is the shearing of salvaged scrap to be returned to production. A shearing machine is kept busy eight hours a day. In a typical month the salvage of aluminum amounts to 104,235 pounds.

Among the accepted suggestions of the waste control section is a processing step whereby two pieces of scrap are welded into a single piece large enough to be stamped into a useful part. Another saving was achieved when what was formerly scrap generated from the production of airship car channels was converted for use in the manufacture of leading edges on airplane tail surfaces. Savings on this job alone were better than $2,000 monthly, and this is but one of the numerous products to which such a process can be applied.

This department discovered that specifications on many blueprints called for pieces to be cut with the grain of the metal. Realizing that this condition was not universally necessary, it arranged with the engineering department to cut pieces without regard to the grain wherever possible. An increase of 50 per cent more parts per sheets of aluminum has been the result because it is now possible to "nest," which means changing the position of the dies in order to utilize the materials more economically.

Other ideas include transferring galvanized sheet, not usable by the photography department, to the engineering department for lofting purposes, and making engine cowlings by welding scrap pieces together.

Conservation has been developed even further in parts manufacture. Not only is it required that all process sheets for parts be routed through salvage storerooms prior to taking sheets of raw stock, but scheduling of parts through the shop is also required in accordance with predetermined layouts. Such layouts utilize sheet stock more efficiently because patterns have been drawn to show the best combination of parts that can be obtained from a sheet.

To prevent a rejected or obsolete manufactured part from being scrapped without authority, all rejected parts from sub-assembly, assembly, shears, routers, drills, drop hammer, and so on, are first delivered to the salvage engineer, who makes every effort to save such material through rework, deviation or engineering change. If the parts cannot be saved, they are stamped "scrap" and placed in a designated spot for pickup by a waste control representative, who checks each part for the scrap stamp mark. Items with removable parts, such as assemblies and castings with bearings, are routed to the materials salvage building, where they are dismantled and the good parts returned to stock after an authorized inspection has been made.

Besides performing the salvage and waste-control activities described above, the material conservation department checks against excessive ordering; takes physical inventory to prevent accumulations of obsolete goods or excessively high stocks; screens requisitions in order to transfer the excess material of one plant to another; sells surplus goods; and segregates and stores inactive stocks. All these activities, efficiently coordinated, constitute a successful attack on the evils of waste. By A. J. McDonald. *Factory Management and Maintenance,* May, 1945, p. 121:4.

Rubber Sponge Speeds Assembly

A ROLE in assembly-line operations is being played by the rubber sponge, enabling workers to pick up small parts rapidly.

Workers in a large industrial plant were experiencing difficulty in picking up small metal parts used in the assembly of one product. The assembly line traveled faster than they could pick up the parts, but not faster than they could work. To slow down the line would have decreased production of a vital war item.

To meet this difficulty, a B. F. Goodrich Company engineer suggested that the table be covered with a thin slab of rubber, enabling the workers to get the tips of their fingers easily around the small parts. The idea immediately proved successful.

Sponge as thin as ⅛ of an inch can be used, although different sponge thickness and density may be required for some jobs.

—*Dun's Review* 9/45

• CREDIT the Perfect Circle Company, Hagerstown, Ind., with developing a unique method of letting their former employees, now in the service, know that their jobs are still waiting for them. The company retains the ex-employee's time card in its regular spot on the rack, where it's the first thing seen by discharged or visiting veterans when they enter the plant.

—*Forbes* 6/1/45

Marketing Management

Trade Shows as an Adjunct to Selling

TO DISPEL any question in your mind as to the value of trade shows in your sales promotion program, let us briefly review their established functions. In general, we might say that trade shows offer an unparalleled opportunity for the physical display and demonstration of products to a large number of prospects in a short time, all at one place, and at reasonable cost. Actually, there is nothing new about the trade show technique. The display and demonstration of merchandise is as old as the Oriental bazaar and, at the same time, as modern as the showrooms and display windows of today's merchants. Let us check a few of the accepted functions of trade shows and see where these functions can help you bolster your sales promotion program:

Introducing new products—The concentration of audience and interest in a trade show offers excellent opportunity to present complete facts on a new product which might not come to the attention of these same buyers for months through individual contacts.

Determining the market for a new product—Here is an opportunity, without too much cost, to ascertain the reaction of your established customers and to gauge their acceptance of a new product.

Testing a new market for an established product—Before launching a full-fledged sales campaign, it is often advantageous to display a product at a trade show before a market which you feel may offer potential volume for this product.

Establishing new representatives or dealers—Especially in regional shows, you have an excellent opportunity to introduce your new representatives to the potential trade by having these representatives in your booth and by introducing them personally to your customers and prospects.

Reaching buying factors otherwise inaccessible—Many executive and supervisory people who are difficult to reach in their plants or offices attend trade shows and are receptive to presentations that are well organized to give them facts.

The demonstration of products otherwise impossible or difficult to exhibit—Many pieces of equipment are too large or complicated to be set up and operated in each prospect's office. But you can afford to set up and operate this equipment at a trade show where you are reasonably sure of exhibiting it to a worthwhile number of logical prospects.

Selection of shows to participate in in any given group of markets should be no more difficult than selecting the right trade papers for your advertising schedule, and it is done in much the same way:

First, be sure you know all the logical markets for your product or service. This may sound elementary, but it will not hurt to check the matter occasionally and be sure that you do know *all* your logical markets. And, by all means, especially since we are now confronted with the changes and shifts of postwar conversions, be sure that you keep an open mind and a keen eye

for new markets which can use your product or service.

Second, find out what trade shows cover these markets regularly and whether on a national or regional basis. A dependable directory which provides helpful information on established shows is the annual schedule published by Exhibitors Advisory Council, 120 Greenwich Street, New York 6, N. Y. This schedule, organized by industrial classifications, gives the name of the show; the sponsoring organization, if any; the name and address of the show manager; the location and date of the next proposed show. Supplements to the schedule are published during the year, revising the information as fresh data is received from the show sponsors or managers.

Third, having compiled a tentative list of shows in which you are interested, obtain as much information as you can on the coverage of each show, its "circulation," its acceptance in the trade, the reputation of the show manager, the rates charged for space, and a list of other exhibitors who participate regularly. It is especially important to apply this check list carefully to a new show. It will also be well to study the timing of the show; be sure this fits in with the available time of those in the industry who should attend. The form of contract and regulations offered by the show manager should be scrutinized, for it sometimes develops that so-called contracts actually have no legal status but are merely applications for space.

In selecting and using the space which you occupy in any given show, it is well to bear the following points in mind: First, balance the amount of space and its cost against the relative importance of the audience which you will reach. Second, always use enough space for free, uncrowded display of your product, with room in your booth for the simultaneous operation of demonstrations, exhibits and conferences. Don't crowd your booth so that your customers will have to stand "on the sidewalk."

We hear entirely too often that "It was a swell show, but we can't point to any results." Results *can* be obtained in trade shows, ranging all the way from pleasant social contacts to an imposing group of orders. But you must organize your activity to produce the results you want. The most readily acquired trade show results are lists of interested prospects, and these, if carefully secured and followed up promptly, should result in a satisfactory volume of sales. Before going into a trade show, devise a prospect form, or visitors' register, which will enable your salesmen to obtain *complete* information for intelligent and effective follow-up.

Finally, follow up your leads. Any salesman who disregards a "hot prospect" or delays contacting him deserves to lose the business. And any exhibitor who allows his prospect reports to grow cold before the prospects are contacted again has no one but himself to blame if he obtains poor results from trade shows.

There is nothing magical in achieving satisfactory results from trade shows. Utilize the same basic selling techniques that you employ in planning and executing your advertising program; follow up the results that the show produces for you; and you will find that trade shows can be a valuable adjunct to your selling program.

From an address by J. F. Apsey, Jr., before the Eastern Industrial Advertisers Association (*The Advertiser's Digest,* August, 1945).

Unstreamlining the Sales Manager for the Postwar Period

THERE was a time when a sales manager managed salesmen and advised and worked with them and their customers. Today, often a member of a vast organization, the sales manager has new titles, new functions, and occasionally some duties which could not be remotely classified as selling or managing. He has been relieved of many of his duties by the sales promotion manager, the market analyst, the public relations counsel, the customer's man, the account executive, the assistant to the president. In losing his close contact with his department and his men, the sales manager has sacrificed punch, drive and directive influence.

The salesman, in the final analysis, is the company's face-to-face contact with its customers, and his greatest inspiration to success is the sales manager's face-to-face training, discussion and counsel. Progressive sales management cannot be accomplished behind frosted windows, through thousands of memoranda and bulletins. Successful sales managers have operated and will continue to operate on a plan of plain, old common sense.

Scientific guidance in hiring eliminates many casualties, but the sales manager must know that the personality test does not provide all the answers. It cannot substitute for the seasoned executive's training and experience and his sensitive evaluation of the applicant under consideration. If he feels the personnel department can fill his order for a salesman in the same way the purchasing department fills an order for steel, he is going to end up with a devitalized sales force. In sacrificing his close association with and personal knowledge of his men—be it in their selection, training or day-to-day operation—he will lose through disuse the very talents which make him successful.

Too often the sales manager stays away from sales conventions and permits the promotion, the advertising or personnel manager to sit in his chair. He is becoming too streamlined—too much of a specialist—wants to manage sales, but is too content to let personnel people do his hiring, promotion people do his training, public relations people take care of his poor relations. He has permitted himself the ease provided by high specialization.

Two influences may have taken the sales manager out of intimate contact with his men. These are the influences that the war crises have had upon the functions of the entire sales department. The war scared the sales manager into other work because he failed to see he still had a job to do. To dissipate his energy, he went into production, expediting, product design, and more expediting—until he found himself in a maze of uncertainty about just what was happening to himself and his company. Next, as new products came into being, the company may have sought his assistance as the liaison between the buyer and the producer, thus causing him to spend much of his time in familiarizing himself with them. These factors have tended to divorce him from actual sales performance.

The postwar period will demand

expert sales leadership. The manager, above all else, must create a spirit of loyalty and cooperation in his sales force. He must not only create it—he must inspire it and direct it.

An infinitesimal deficiency in some factor of production can be caught in inspection, but the deficiencies of a salesman are different. He is on his own. The fancy alibi explaining the loss of an account, its peculiarities, the difficulties of handling it, reflects upon the sales manager. A check of the causes can be made only after the account is lost, and serious defects in customer-salesman relationships frequently are detected only when it is too late. Intimate and sympathetic relations between the sales manager and his men uncovers these weaknesses before they can become serious.

The sales manager cannot depend on the multiplicity of related departments that have come into existence to do his job for him. He has to be in there fighting. He has to know more about his men than the factory superintendent knows about his foremen, because the sales manager's product is nebulous—it cannot be put under the light of the X-ray, nor can it be dropped off a 10-foot platform to see if it will stand the hazards of shipping. It is a delicately balanced human relationship that comes only from actual contact; and when the sales executive avoids that contact and delegates his job to others, he is deluding himself. He must keep this vital spark of contact at high flame, for the minute it flickers or wanes the salesman begins to lose accounts.

From an address by Arnold Michelson before the Rochester Chamber of Commerce and Sales Executives Club of Rochester, N. Y.

What's Ahead in Paying Salesmen?

A RECENT survey of more than 100 representative sales executives reflects diversified opinion on the subject of salesmen's compensation. For example, the question, "Is the straight commission form of compensation a satisfactory basis for the long-range control of selling efforts?", was answered in the affirmative by only 23 per cent, while 77 per cent said "No." Only two out of three companies using the commission basis in 1941 now consider it a satisfactory long-range policy.

In answer to the query, "What basis should be used in determining how much a salesman's services are worth?" three major types of replies were received.

First, 58 per cent of all executives voted in favor of an accurate job-evaluation basis, which was defined on the questionnaire as "what the job is worth as measured fairly against the experience and qualifications required, and difficulties inherent in it, in comparison with other jobs in our own and in other companies on which widely recognized scales of remuneration are established."

Second, 27 per cent voted in favor of "sky-is-the-limit basis," which was defined on the questionnaire as "all he can earn with the 'sky the limit' as determined by his volume and the percentage of direct selling cost which the company considers allowable in his territory."

Third, 11 per cent voted for the basis described as "the minimum amount for which we can get the kind of men we want."

The question of setting a definite maximum limit to the amount of bonus payable to a salesman during any given bonus period resulted in a sharp 50-50 split in executive opinion. Of all executives answering, 47 per cent stated their belief that salesmen should receive all they can earn without limit except as determined by such an incentive percentage as the company considers allowable. However, 42 per cent of the executives believe that the amount of the bonus should be limited to a definite maximum percentage of the base salary.

—R. E. Runzheimer in *Advertising & Selling* 6/45

15 Tips for Postwar Salesmen

TOO much of what is presumed to be sound advice for salesmen is written by sundry individuals who have never had to struggle to get an order. Here are 15 down-to-earth tips for postwar selling—collected from interviews with successful salesmen who have thought ahead to the eventual return of a buyers' market:

1. Changes in the competitive status of retail accounts in most trading areas will be considerable. The postwar line-up of accounts in your territory will differ radically from the prewar line-up. This suggests that your postwar schedule of calls on both customers and prospects must differ widely from your prewar or wartime schedule.

2. You can't afford to assume that the current sellers' market will last even through the next season. Actually, it may last in your line for two years—or it may turn into a buyers' market in a matter of a few months. This much is sure—booms have never been stabilized; they don't last forever. So organize your territory right now just as though orders were as scarce as hen's teeth. It will be good practice that may come in handy.

3. Salesmen who were in the habit of remarking, "Don't you know there's a war on?", are now being countered with, "Don't you know the war is over?" If ever there was a time for good-humored rejoinders rather than tart replies it is when the dealer either verbally or by attitude indicates that he now considers himself to be in the saddle. The chip is now on the other shoulder—but don't go about knocking it off. Pride in your line and respect for the account you are selling should go hand in hand.

4. If your line promises to be in tight supply for some time to come, be sure that you place your allotments both fairly and sensibly. Your handling of allotments will be a major factor in shaping the future of your territory.

5. A major task for the postwar salesman is to unscramble the terribly scrambled "brand" situation existing in most stores. In order to obtain merchandise, distributors have bought anything available. Many stores that formerly handled only two or three brands of certain merchandise classifications now stock as many as a dozen. These "war baby" brands will fight to retain their outlets. Smart salesmen will (a) check dealers' stocks by brands, (b) sell dealers on dangers of multiple-brand inventories, particularly "war baby" brands, if and when markets become highly competitive.

6. Retail profit margins will probably shrink. Be sure you tell dealers the "profit statistics" story of your line, because retailers are going to put their promotional effort and promotional dollar behind profitable lines.

7. With enormous changes occurring in the competitive status of retailers everywhere, salesmen who stick blindly by "deadwood" are not being loyal to their employers. Those who cover their territories blindly, smugly unaware that "the old order changeth," are being loyal neither to themselves nor to their employers.

8. Retailers will be anxious to return so-called "duration" inventories when postwar or interim lines come out. There's no reason for becoming softhearted. A little effort by retailers will move most current inventories without hardship. Certainly your company cannot exchange new lines for old.

9. Price lines will show a down-

trend, but the retailer who decides to cut price lines to the bone will usually succeed only in cutting his throat. Better quality, better styling, better service will be the strongest competitive weapons in the arsenal of your accounts—not the promotion of the lowest-price lines.

10. Your line may soon, or eventually, be made with remarkable new materials, gadgets or styling. You've got to learn about plastics, or glass yarns, or electronic heating—whatever it is that makes your line different and better. The salesman who remains "sot" in his ways is going to be set back on his uppers—and hard!

11. If you find it difficult to absorb the technicalities about your new line, imagine how much more difficult it will be for your accounts to absorb the same information. After all, retailers are going to be compelled to learn a lot of amazing new things about an amazing number of lines. You'll have to tell your story in A-B-C fashion and you'll have to tell it again and again. Many new lines will bog down in a morass of dealer and clerk ignorance. Your job is to inculcate knowledge and enthusiasm.

12. Do you realize that, in many of the retail stores you sell, the roster of floor people will change from 50 to 100 per cent by the end of 1946? What do you plan to do to make certain that these new hundreds of thousands of floor people (some of them old-timers who went into service or into war work) know your line and how to sell it?

13. Don't count on improvements in your line to keep it oversold. Your competitors will have improvements, too! Be enthusiastic about the improvements, but don't lose that enthusiasm as soon as you see and hear what your rivals are showing.

14. Any number of your accounts will be moving to new locations, making store improvements, etc. Be sure to comment on these changes when you enter the store. And if you drop a line to the retailer after your visit, again commenting on his progress, you may be sure that your remarks will be welcome. By the way—don't forget to make certain that your line benefits in location and display from any store changes made by each account!

15. You'll be seeing some old faces that have long been absent in buying offices, on the retail floor, etc. Go out of your way, if necessary, to welcome back these returned store workers. Your own good nature will suggest it—your business instinct will demand it.

Grey Matter (Grey Advertising Agency, Inc.), July, 1945, p. 1 : 4; and October, 1945, p. 1 : 4.

NOTE: The articles from which the above was abstracted contained 35 additional tips for postwar salesmen.—*Ed.*

MARKETING CONFERENCE

A Conference of the Marketing Division of the American Management Association will be held on Tuesday, Wednesday and Thursday, January 15-16-17, 1946, at the Hotel Pennsylvania, New York City.

Financial Management

Profit-Sharing, Savings and Retirement Plan

By ELLIOTT W. ROBBINS
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Sylvania Electric Products, Inc.

A PRESENT membership equaling well over 90 per cent of eligible employees appears to be as good a recommendation as any for the savings and retirement plan in effect at Sylvania Electric Products, Inc. The program was inaugurated on December 1, 1942. While the provisions of the plan are conservative, company officials have become so sold on it that they are fast adopting the attitude that anyone who fails to participate is just "way off the beam."

Company plans designed to provide retirement incomes for employees have a long history. Certain firms, too, have encouraged employee thrift by paying interest rates somewhat higher than those generally obtainable or by supplementing employee savings. Others have developed termination pay along expanding lines. The Sylvania plan is four-sided in nature: It provides an incentive to employee savings, an important supplementary termination payment, a pension program, and incorporates the feature of employee profit sharing.

In setting up the Sylvania plan, the originators took a realistic approach to the facts of the situation. One of the facts in Sylvania's situation is that between 60 and 80 per cent of the employees are female, among whom turnover is relatively high. Only a small proportion remain with the organization 20 years. To be of real benefit, therefore, the plan had to provide generously for those leaving the company after relatively short service.

Warned by the hulks of pension plans wrecked on the reefs of too high expense when money became scarce, the originators sought a conservative financial base. The profit-sharing feature was established on a percentage basis so that it would not prove relatively any more burdensome when operations were at a low level.

Every Sylvania employee with three years' service is eligible to join regardless of job, sex or rate of pay. A further provision permits those hired after they have passed their thirty-fifth birthday to participate after only two years' service, and those hired at 40 or over after one year.

There is no discrimination in the profits distribution. Even employees discharged for misconduct are entitled to both their profit shares and their own contributions. Thus the element of doubt as to what he will get under the "worst possible conditions" is removed from the employee's mind.

Contributions are deposited in a large trust fund administered by a New York bank. Into this the employee pays 3 per cent of his salary or wages each payday. Except in the case of participants who quit its employ voluntarily, the company makes a contribution equal to one-half that of the employee. Each year the company also

pays into the fund 4 per cent of its net profits before federal taxes, allocated proportionately to the account of each member. At the start of the plan, the company also contributed a sum of money sufficient to provide past-service benefits for those in its employ at that time. When in May, 1944, Sylvania purchased the Colonial Radio Corporation and invited the employees of that organization to join the plan, another sum was put up to provide past-service benefits.

If a participant quits his job or is discharged for misconduct, he receives a cash payment consisting of his own accumulated contributions and his accumulated share of profits. The term "accumulated" refers here to the fact that a proportionate share of investment interest or income is added to the account of each member as the fund is invested in various securities. If the member is laid off or his employment terminated while in good standing, he receives the sum of his own accumulated contributions, his accumulated share of the profits, and a company contribution equal to one-half his own savings. There is a further provision that his total benefits shall not be less than 4 per cent of his base pay at the time of termination multiplied by the number of years he has been a participant in the plan.

Here it is worth noting that these benefits are in addition to regular termination pay. Hourly workers with six months' service receive one week's pay or one week's notice; salaried employees, two weeks' pay. Thus it is apparent that, except for very rare "misconduct" cases, no salaried employee in the plan can leave the company with a payment of less than four weeks' salary.

A savings and retirement plan of this kind is a definite step toward offsetting some of the financial insecurity that frequently faces the head of a family employed by a large corporation. He tends to become highly dependent on his job and extremely vulnerable when employment is suddenly terminated.

Consider, for example, the salaried employee who earns $50 a week. Actuarial estimates of the Sylvania plan indicate that profit shares will equal 1½ per cent of the employee's salary. Thus the expected sum at the end of each year, including the individual's savings and retirement fund, amounts to 6 per cent of his pay—in this case $156. Thus a participant in the plan who was laid off after having been in the plan for only two years would receive more than eight weeks' pay—including the two weeks' termination pay. If, on top of that, he could be assumed to be receiving $25 weekly unemployment insurance, he could go for 12 weeks without any diminution of his standard of living—with the prospect of unemployment insurance continuing beyond that. Here, then, we find an important step has been taken toward establishing an equity value in the job that can be cashed by the employee should he lose his job.

Further provisions of the savings and retirement plan provide for a life annuity for each member retiring at 65, based on the accumulated employee and company contributions and profit amounts. Certain optional plans are also offered under which the member may elect to receive a reduced lifetime annuity plus a residual payment to his beneficiary, or a reduced life annuity for the member and the member's beneficiary, etc.

Particularly noteworthy is the pro-

vision for lifetime annuities for any member retiring from 50 to 65, also computed on the same base. These are the critical years before Social Security becomes effective.

The company maintains a separate insurance program, but if a participant in the savings and retirement plan dies, his beneficiaries receive his accumulated contributions and profit shares. There is an additional provision that individuals who have participated in the plan for 10 years are eligible for certain benefits should they become totally and permanently incapacitated either physically or mentally.

Today this plan is still enjoying its honeymoon with the large profits-before-federal-taxes accompanying expanded war business. Company officials hasten to point out that the profit shares, which in each of the first two years of operation have amounted to more than 100 per cent of member contributions, will be nothing like that now the war is over. The management is confident, however, that the plan is on such a sound basis that it will continue to be of real value to the individual employees and to the company in both the lean and good years that lie ahead.

Determining the Technical Research Budget

THE amount of money which a company should spend for technical research is difficult to estimate and is often the subject of conflicting opinion. A questionnaire on this subject was recently distributed by the Industrial Research Institute among its members, who are engaged in research activities in a wide variety of large industries. The respondents indicated that a good practical working figure for their industries was between 5 and 10 per cent of net profits, or something over 2 per cent of gross sales.

Because these figures represent budget recommendations for special industries, they do not provide a basis for general application. For example, a small company, and perhaps one just getting under way, may wish to spend 50 per cent or even more of its profits for research, and such a percentage will, in some cases, be perfectly sound. On the other hand, a large, well-established concern may get along adequately with a budget of 5 per cent of profits, or even less.

When we consider *the cost per research man,* we must bear in mind that the figure will vary in accordance with the type of industry under consideration and the methods of bookkeeping employed. From the answers to a query of Industrial Research Institute research directors, it appears that a fair figure per technical man for the industries represented was around $10,000 per year. In the case of certain individuals, the estimate might, of course, be substantially higher or lower. This figure covers the cost of a non-technical helper for each technical man, as well as stenographic assistance, janitor service and overhead. Most of the responding research directors were in favor of assigning a non-technical helper to each technical man. On the other hand, some felt that the helpers should also be technically trained. Obviously, if this point of view is accepted, the cost per technical man will be affected.

As a check on the figures given above, it may be worthwhile to cite a figure from a survey in 1940 by the National Resources Planning Board. In this survey the average cost of research was found to be $4,000 per man-year. This figure approximately corroborated some confidential information which the National Association of Manufacturers secured from its membership at the same time. Actually it is not inconsistent with the $10,000 figure derived from the Industrial Research Institute questionnaire, since the $4,000 is an average for *all* the personnel in the research department—i.e., technical staff, technicians, clerical and service personnel.

—From *Organization of Technical Research in Industry,* Industrial Research Institute, 1945

Insurance

Pension and Profit-Sharing Plans Under the Internal Revenue Code

SINCE the entry of this country into the war, over 6,000 pension and profit-sharing plans have been established. It would be unrealistic not to recognize that high wartime profits and corporation tax rates, accompanied by high individual rates together with wartime wage and salary controls, have contributed to this enormous growth in the number of benefit plans. There is, of course, no denying that the tax laws intentionally give valuable incentives to qualified employee pension and profit-sharing plans. The law permits tax deductions for all contributions made to qualified plans.

In one sense, these contributions are similar to other wage and salary payments which are deductible for corporate tax purposes. But in the usual case, wages and salaries enter almost simultaneously into the individual income tax base. On the contrary, in the case of contributions to qualified employee plans, the employer corporation obtains this tax recognition without the corresponding increase in the amounts subject to individual income taxes. Thus the government agrees to postpone collection of its share of these payments in most cases for many years. Perhaps the chief advantage to the corporation is that it can provide for the retirement of its older employees, thereby serving a business interest which would otherwise be difficult of solution.

Requirements of Section 165(a) of the Internal Revenue Code. Such favorable treatment granted to participants in pension and profit-sharing plans can be justified only if the benefits reach a broad group of employees and are not restricted to favored groups. The Revenue Act of 1942 set out certain requirements which plans must meet in order to qualify under section 165(a). In addition to re-enacting requirements substantially the same as appeared in prior revenue laws, the 1942 Revenue Act imposed for the first time the requirement that a plan must not be discriminatory in favor of officers, shareholders, supervisors, or highly compensated employees with respect to eligibility, contributions or benefits. The plan must cover a specified percentage of all employees, or the eligibility classification must be such as is found by the Commissioner not to be discriminatory in favor of employees who are officers, shareholders, supervisors or highly compensated; likewise, contributions or benefits must not discriminate in favor of such employees.

The statute as amended by Public Law 511 (78th Congress) on December 20, 1944, gave taxpayers who put plans into effect prior to January 1, 1945, until June 30, 1945, to amend such plans to satisfy these requirements with respect to discrimination. Plans put into effect after December 31, 1944, may qualify retroactively if they meet the requirements with respect to discrimination by the time the employer's tax return is normally

due for the year in which he put the plan into effect.

Integration with Social Security Benefits. Almost half of the pension and annuity plans established restrict eligibility to employees whose annual compensation exceeds a certain amount, usually $3,000 a year, or provide a higher rate of benefits on that part of the compensation in excess of $3,000 a year than on the first $3,000 of compensation. While the $3,000 earnings classification is explicitly permitted by the statute, it is apparent from the Senate Committee Report that the reason for permitting these distinctions rests on the fact that Social Security benefits are based upon the first $3,000 of compensation. Moreover, the propriety of this type of plan must be viewed in the light of the general policy of the law prohibiting discrimination in favor of officers, shareholders, supervisors, or highly compensated employees. If a plan in which eligibility, contributions or benefits favor employees earning above a certain amount, such as $3,000 a year, is not to be discriminatory in favor of highly compensated employees, it is clear that the extra benefits which they receive under the plan must be related to the benefits under Social Security. Accordingly, the regulations on this subject provide that an earnings classification with respect to eligibility or with respect to contributions or benefits may be deemed discriminatory unless the *proportionate* differences in benefits as between employees earning in excess of such classification and those earning less than such amount are approximately offset by the benefits provided by the Social Security Act.

Profit-Sharing Plans with Earnings Classifications. Such plans can qualify as non-discriminatory only if they contain restrictions on benefits comparable to those required in pension plans with similar classifications. Because of the greater flexibility inherent in methods of contribution to profit-sharing plans, it is necessary in these cases to impose restrictions upon the amounts of employer contributions which may be available to any participant at any time prior to retirement, as well as upon the benefits available at retirement. An employer who, in setting up a profit-sharing plan, takes advantage of the provision in the law permitting plans with earnings classification must sacrifice much of the flexibility in methods of contribution which are enjoyed in the case of profit-sharing plans which uniformly cover low- as well as high-paid employees. Moreover, the greater liberality in deductions which section 23(p) gives to profit-sharing plans, as against pension plans, may be sacrificed if the plan is restricted to the more highly compensated employees. However, only a small minority of profit-sharing plans contain earnings classifications.

Stockholder Participation. One of the major characteristics found in about 60 per cent of the plans put into effect since the beginning of 1942 is that employees who have a major stock interest in the corporation participate in the plan and receive a substantial share of the benefits. An analysis in 1944 of a large sample of plans involving stockholder participation revealed that in about 90 per cent of the cases studied the participants owned controlling interests in the stock of the corporation; in over half of the cases, they owned more than 90 per cent of the corporation's stock. In 85 per cent of the cases, the major portion of the

stock was held by four or fewer employees, and in nearly half of the cases by only one or two. In about one-fourth of these plans, as they were originally submitted for approval, over half of the corporation's contributions were to be applied for the benefits of the stockholder participants. In over 80 per cent of the cases, over 20 per cent of the corporation's contributions were for the benefits of stockholder participants. To complete the picture, it must be noted that most of the corporations involved were subject to excess profits taxes, or would have been but for the deductions taken for contributions to the pension or profit-sharing plan.

It is obvious that many of these plans were designed merely as devices for distribution of corporate profits to shareholders without subjecting such profits to corporation income and excess profits taxes or to current individual income tax. Accordingly, the Bureau announced a general rule in I.T. 3674, released July 11, 1944. It was held therein that a plan will not generally be considered for the benefit of shareholders if the contributions to provide benefits for employees each owning more than 10 per cent of the voting stock do not in the aggregate exceed 30 per cent of the contributions for all participants under the plan.

Published Rulings Not Retroactive in Application. Since the various published rulings on pension and profit-sharing plans were issued over a period of several months, many taxpayers who had had plans approved by the Bureau became apprehensive lest each new ruling to which their plan did not conform necessitated immediate amendment in order that it continue as a qualified plan. In response to numerous requests for advice, P.S. No. 35 was issued on November 16, 1944, stating that, unless otherwise specified, new rulings have no retroactive effect but that with respect to specified important rulings, plans previously approved must be amended by the end of the taxable year following the year in which the ruling was issued, retroactive to the beginning of such following year.

By Norman D. Cann. *N.A.C.A. Bulletin,* July 15, 1945, p. 1027: 14.

New Devices Permit Disabled Vets to Drive Automobiles

LOSS of one or even more limbs will not prevent veterans or others from driving their own automobiles in the future, *Advertising Age* asserted in a recent statement. The statement pointed out how automotive engineering groups, working with the staff of the surgeon general of the Army, have developed a host of new driving aids which will fit the needs of many different combinations of limb amputations.

A few easy-to-manipulate devices attached to the steering post, dashboard or the foot pedals promise to make it possible for vets who have lost one or more limbs to resume auto driving in so normal a manner that, to date, 36 of the 48 states have indicated they will grant drivers' permits to those whose cars are equipped with the necessary controls. The devices will be so designed as not to interfere with the regular driving routine of others who may use the same automobile. Also, it will be possible to install them on old cars as well as new ones.

During experiments to determine the usefulness of various devices, a test car fitted with a master set of controls was successfully operated by veterans who had lost from one to three limbs. The Army is so much interested in the devices that it has opened the facilities of Percy Jones Hospital, Battle Creek, Mich., to automotive engineers for field tests.

What's Ahead in Coverages

THERE are a number of important trends in the insurance business which seem certain to develop as we move into the postwar era. Most of them were well under way during the prewar years. It is well to remember that insurance made unparalleled progress in coverages during the 'thirties and early 'forties, and there is every reason to believe that this will continue. If for no other reason, competition between classes of carriers for the insurance buyer's dollar will make this a certainty.

Any guess as to what will be the *most* important development is likely to be wrong, but sellers give every promise of devoting special attention to the smaller and middle-class market. This does not mean that "big lines" will be neglected or that competition for them will relax. But the large-class insureds have long evidenced interest in obtaining broad coverage, and the big markets have been combed more assiduously than the smaller ones. Further, big firms are sharp buyers of insurance. For all these reasons there is little opportunity for much profit on these lines.

Three main forces that will reduce certain insurance rates on small lines are the influence of insurance supervising officials, public opinion, and competition between sellers. The succession of fire insurance rate reductions, particularly on dwellings and small mercantile establishments, is evidence of the fact that state insurance commissioners will not cease their efforts to justify state supervision —for rate reductions are the easiest and simplest way to show the effectiveness of such supervision. The same attitude prevails among other public officials. Similarly, the spread of automobile financial responsibility laws, with a general increase in motorists carrying liability insurance, means that these rates will be more and more subject to public and official scrutiny. It seems reasonable to believe that automobile rates will never be permitted to rise above a level which will give insurance companies more than a minimum profit.

Self-insurance will undoubtedly be considered an attractive prospect by large corporations. An insurance buyer would hardly be human if he did not consider the possibilities of building up his own department by self-insurance operations. Another highly important consideration may be the freezing of rates, especially casualty rates, by rate laws passed as a result of the Southeastern Underwriters Association case. Certainly any rate laws which diminish the freedom of insurance companies to make quotations to large accounts will tend to increase the cost of insurance to these insureds and will make them consider self-insurance more seriously than ever.

In a number of cases during the war, insurance men were able to secure previously self-insured accounts or to retain some that were considering self-insurance, largely because these companies lacked the manpower to handle self-insurance record-keeping and other attendant work. Obviously, these firms bought insurance for the service rather than the financial protection. With the prospective lightening of the manpower problem, this reasoning will change and may even operate to the reverse effect: The prospect of employing more people, as compared with hiring an insurance company to do the job, may

cause management to favor self-insurance in some instances.

A likely outcome of the probable increase in self-insurance is the development of excess or deductible coverages. Fire insurance companies particularly have resisted this, and actuaries have raised many objections to basing rates on deductibles. None of the regular rating bureaus publishes rates for deductible fire insurance, and such lines as have been written have been specially arranged. But the pressure may prove too strong. Faced with the alternative of losing lines completely to outsiders (perhaps through the "back door" to non-admitted and foreign underwriters), the "orthodox" carriers may be forced to rate and write such lines on a regular basis.

Nowadays insurance departments of many large corporations have their "minimum" loss figures—that is, risks of loss below which they will not insure. This figure may be anywhere between $1,000 and $25,000, depending on the size of the corporation. It is not improbable that eventually there may be some standard recommended self-insurance limit for businesses of different size. If buyers demand insurance written on this basis, insurance companies will have to provide it—or someone else will.

As far as simplification of premiums is concerned, the insurance companies had taken more steps in this direction before the war than many people realize. A few years ago automobile liability rates were almost invariably shown in odd cents. Today, they are just as universally expressed in even dollars.

Two improvements in automobile rates seem quite likely and certainly should be welcomed by insurance buyers. They are consolidation of the bodily injury and property damage liability charges into a single premium —perhaps also including the medical payments charge—and adoption of a single unit.

Automobile liability policies are frequently sold without property damage liability insurance, and many companies will not accept one coverage without the other. The average insured seldom realizes that they are two distinct coverages. Separate quotations and additions are always awkward and confusing to insureds. While many insurers do the arithmetic for their accounts, the policies continue to show both charges, thereby perpetuating the confusion.

Combining the bodily injury liability, property damage liability, and medical payments charges into a single premium, in even dollars, would certainly simplify matters. The popularity of medical payments insurance makes this even more desirable. Since there is strong sentiment in insurance company circles for including the medical payments coverage in the automobile liability coverage at the basic premium, it is likely that the reason for a separate charge will eventually disappear.

Likewise, few insureds understand the present system of the limit per person and the limit per accident, as well as the separate property damage liability limit. Very few producers take the trouble to explain it unless asked, and even then it is questionable whether the explanations do much good. The comprehensive personal liability policy, with its single limit and single premium, indicates that insurance can be written on this basis.

Finally, a simplification advocated by many and actually practiced by some companies is elimination of identification of the insured's automobiles.

Since all automobile liability policies now cover driving of other cars and substituting other automobiles for the ones originally insured, there seems little point in describing the insured cars by their motor and serial numbers. For the purposes of liability insurance, a simple statement of the number of cars the insured owns should be entirely satisfactory. Details can always be checked should a loss occur. BY PAUL H. WILLIAMS. *Journal of American Insurance,* September-October, 1945, p. 4:3.

Determining Liability for Salesmen's Accidents

A DIFFICULT problem in imputing negligence often arises when the relationship between the person sought to be held responsible and the party actually causing the damage or injury is obscure or is characterized by the weakness inherent in loose supervision. This problem most frequently presents itself in situations where a firm permits its salesmen, who work on a commission basis, to choose their own routes and customers, with no restrictions placed on their hours of labor. Where the salesman is paid a fixed weekly salary, uses a firm car, and is supervised in nearly all his activities by his superior, there is no doubt that an employer-employee relationship exists and, clearly, the employer is liable for injuries or damages caused by the salesman while he is on the job.

How is the relationship determined? All circumstances must be considered, the most significant of which are: Could the salesman choose his own route? Did he use his own car and, if so, did he pay for his own gas and oil? Did he work on a straight commission basis? Was he engaged by any other firm to solicit business? Did his alleged employer deduct Social Security tax and unemployment insurance from his commissions? What supervision was exercised over the salesman? Was he permitted to exercise wide discretion in his operations? The answer to these and several other questions will always shed light upon the relationship of the two parties involved.

It may be asked why it is so necessary for such an extensive inquiry. There are several reasons, the most important of which is that the salesman usually has no insurance, whereas the firm that engages his services is covered for its liability under a non-ownership or contingent policy which requires the insurer to defend only the firm's interest. If, however, it is shown that the salesman was in fact an employee of the assured, the judgment will run against both and the insurer will then be compelled to satisfy it. Of course, the insurer does have a right of reimbursement against the salesman, but his chances of success are usually remote because of the salesman's comparatively limited ability to pay.

The following case example illustrates some of the principles discussed above:

In Fritz *vs.* Krasne *et al.,* 291 N.Y.S. 10, action was brought in behalf of the plaintiff for injuries he sustained in an automobile accident in which the defendant, Samuel Chertok, was a principal. At the time of the collision Chertok was driving an auto owned by him. It was alleged that Chertok was driving his car for and on behalf of the defendants, Krasne Brothers. The first trial of this action resulted in a verdict of $15,000 for the plaintiff against Chertok, but the complaint against Krasne was dismissed. A new trial was subsequently granted on the grounds of newly-discovered evidence, which was said to be determinative of Krasne's liability.

On the second trial the same result was achieved, and the court in justification of its stand declared in part:

> "The operator himself paid for garaging, repairs, oil and gas in the operation of the car, and also used the car for pleasure purposes. The partnership did not ever control or direct in any way the operation of the car, nor did they ever pay the operator any expense money for the upkeep or maintenance of it. It does not appear that any person connected with the partnership ever gave, or reserved the right to give, the operator any directions with reference to the manner in which he was to do his work."

—*The Spectator* 5/45

Survey of Books for Executives

Business Leadership in the Large Corporation. By Robert Aaron Gordon. The Brookings Institution, Washington, D. C., 1945. 369 pages. $3.00.

*Reviewed by Harlow S. Person**

In this book Professor Gordon supplements earlier published studies of big-corporation economics by a report on a specific phase of the problem—the manner in which the leadership function is actually performed in the huge corporation. It reflects an analysis of more than 150 of the largest corporations in the United States, comprising most of those included in the National Resources Committee compilation of 1935 and in the Securities and Exchange Commission compilation of 1937.

By the term *leadership* the author identifies the function of giving direction and unity to the economic activity of an enterprise; the function that is responsible for objectives, programs, policies, decisions, organization and coordination. He finds that, although no two enterprises are alike in detail in respect of the segment of organization that is responsible for this function and any enterprise may change the details in response to a cumulation of particular forces, there is a general pattern to which nearly all conform. The pattern is one in which a chief executive stands out as the key figure of a *group* of executives, each of whom performs the function of initiation and decision with respect to some phase of the management, and all of whom together constitute the leadership. The chief executive of the huge corporation today is not ordinarily the creative and aggressive individual familiar in the popular literature of big business, but is a professional executive coordinating the firm's activities, approving decisions that flow up to him from subordinates, but doing less and less initiation. The bulk of detailed executive activities, including especially initiation, identified with the chief executive of a small enterprise have become diffused by compulsion of technical circumstances among such an executive group.

Business leadership does not operate in an institutional vacuum, and there are of course other groups, some inside and some outside the enterprise, that make contributions. In law the stockholders and the directors are assumed to be major factors, but the influence of both of these interest groups has steadily declined. Also since the economic debacle that began in 1929 the influence of bankers has declined, except in occasional circumstances of promotion, bankruptcy and reorganization. The power and environmental influence of labor as a pressure group have increased, but a mechanism of direct contribution to leadership in management has not yet developed. The influence of government has increased steadily during the past decade, and in some instances has evolved from regulation and approval or inhibition to direct participation in decision-making. "There is little reason to believe that present tendencies in the direction of stronger influence by government on private leadership will be reversed, although they may be modified." There is nothing particularly new and startling in these findings; people closely associated with business feel that they know them to be the facts, and intelligent citizens generally know that they feel them to be true. But in this report the facts are presented for the first time systematically and convincingly, and with more overtones than can be indicated in a brief review.

Among these overtones are several which one wishes the author could have developed at greater length, though fairness to him requires that one acknowledge that he did not consider them germane to the main purpose of the report. But they stimulate the reader and make him ask for more. In view of the trend toward professionalization of the management of huge enterprises, with the potential outcome that the executive group will become completely divested of the interest and motivation of participation in the supply of equity capital, what new influence on the economy is this leadership likely to develop? "In the very large corporation," says the author, "the size of the stakes often impels the professional manager to emphasize financial caution at the expense of imagination and creative leadership. . . . Big business, like large-scale government, tends to suffer from a bureaucratic stiffening of the joints." Will the offset be found in new types of constructive programs resulting from emphasis on organization, coordination, and continu-

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ous attention to the contributions of the sciences?

In respect of one problem the author is concretely suggestive. Although not practicable in precisely the original form, restoration of the function of the directors is, he considers, desirable because there must be some independent check on the professionalized executive group. He suggests three principal responsibilities for directors: giving competent advice to the management group; appointment of the chief executive and determination of his compensation; and serving as "management auditors reporting periodically on the company's progress and the quality of its leadership." Logic indicates, he says, that the creation of a strong and independent board with such functions may require some sort of government intervention.

In its objectivity, organization and documentation this book reflects the scholar; and in style it is simple, direct, free from the specialized vocabulary of economics, and very readable.

EMPLOYEE COUNSELING: *A New Viewpoint in Industrial Psychology.* By Nathaniel Cantor. McGraw-Hill Book Company, Inc., New York, 1945. 167 pages. $2.00.

*Reviewed by Schuyler Dean Hoslett**

This book by a college professor who has directed a group of counselors in a war plant will prove most useful to personnel technicians and general management interested in developing worthwhile counseling programs. Popular in nature, it can well be employed to train new counselors who lack formal training in the field.

The book is divided into three parts. The first considers "The Problem"; the second, "The Approach"; and the third, "The Organization." "The Problem" involves understanding the social structure of the particular corporation; here is expressed the view, familiar to those who have read accounts of the Hawthorne experiments, that "an industrial organization is made up of individuals who are concerned with the economic activity of earning their livelihood, *and who are also engaged in living socially.* Feelings of envy, pride, love, hatred, joy, sorrow, success, failure, timidity, aggression, loyalty and irresponsibility . . . operate in, and filter through, their economic activities." This approach to industrial relations is basic throughout the book.

After a very brief résumé of the development of counseling programs in industry, the author describes his own experiences with a typical counseling organization where neither the counselors, employees, supervision nor top management knew exactly what the counselors were doing or what they were supposed to do. Here, as in many plants, counselors were performing such varied functions as investigating absenteeism, escorting visitors, selling bonds, arranging transportation, posting bulletins, arranging transfers, and organizing first-aid classes.

It is at this point that the author makes the excellent suggestion that counseling services should be divided into two distinct categories: (1) administrative services, such as those listed above (handled by "personnel counselors"), and (2) counseling on problems of human adjustment (handled by trained "employee consultants"). As everyone acquainted with wartime counseling is aware, in every plant there is a heavy load of routine administrative detail which must be handled and which frequently devolves on a counseling staff. These services are necessary, but obviously trained consultants are not required to perform them, and they should not be allowed to interfere with the essential counseling function of the consultants. In the writer's opinion, the effectiveness and status of counseling would be much improved if Cantor's principle were widely applied.

After discussing the basic psychological needs of dependence and independence in a popular vein, Cantor delimits the function of the employee consultant. Specifically, his job "is to help the employee help himself to adjust a problem that interferes with his performing an efficient job; . . . to help the employee find the solution to his own emotional problem in his own way and at his own tempo. . . . He in no way touches problems directly concerned with wages, hours, conditions at work, transfers, etc." This kind of program doesn't insure that every employee with a personal problem will be helped, but a consultant with some knowledge of dynamic psychology and training in the technique of non-directive counseling will be ready to aid the employee to express himself, to help him unload his emotional burdens. And experience has shown that once an employee has talked out all the negative aspects of his situation, he ordinarily comes around to devising for himself some positive corrective plan of action.

The author covers the technique of counseling in two chapters, devoting most of the space to case illustrations of his four main types of interviews: (1) establishing a confidential relationship, (2) gaining recognition and relieving tensions, (3) solving immediate problems, and (4) adjusting to basic personal difficulties. With one excep-

* Headquarters, Army Air Forces.

tion, the cases cited are all rather short excerpts and in the reviewer's opinion do not always illustrate adequately the type of interview specified or make perfectly clear the difference between the types. The close student of non-directive counseling may also be critical of some of the responses made by the counselors. Fewer, but longer, interviews might have been more effective, especially for study by trainee consultants.

In Part III the author makes a number of worthwhile points regarding the qualifications, development and records of the employee consultant staff, and its place in the organization. He emphasizes professional training for counseling and argues against placing the consultant under the supervision of a foreman. The point is well made that if interviewing of this kind is to be effective it must be divorced from any kind of authority.

This useful volume concludes with a selected bibliography referring the reader to such well-known writers in the field as Baker, Barron, Dickson, Dreese, Giberson, McGowan, McMurry, Mayo, Roethlisberger, Rogers and Tead.

EFFECT OF FEDERAL TAXES ON GROWING ENTERPRISES. By J. Keith Butters and John Lintner. Division of Research, Graduate School of Business Administration, Harvard University, Boston, 1945. 226 pages. $3.00.

*Reviewed by J. W. Oliver**

Perhaps a more timely subject has not come to the fore since the sixteenth amendment to the Constitution. Unfortunately, the subject matter of this treatise can be made to appeal only to students of finance, despite the fact that scarcely any other phase of economics is of equal importance at the moment.

The *Effect of Federal Taxes on Growing Enterprises* is a report of pioneer research. It stems from a study of case reports on the growth of five fairly well-known corporations financed to a large extent by retained earnings over a development period when corporation income tax rates were much lower than they are now. A series of exhibits are given indicating rate of growth under existing tax rates, with interpolations showing how current 40 per cent corporate taxes would have retarded expansion of these companies. Admittedly, these exhibits are hypothetical, embracing idyllic assumptions. But the authors are careful to warn the reader that any depiction of figures embracing "it might have been" probabilities are always subject to challenge. Nevertheless, the illustrations seem sufficiently representative to justify their use in sharply focusing the drastic effect of high taxes on potential retainable earnings. One set of tables, predicated upon given chance-ratios of profits or losses, shows that with no tax applicable a concern may be expected to expand progressively at the rate of 30 per cent; whereas the same example, with the added element of a 40 per cent tax on earnings, would possess an expansion expectancy of only 2 per cent. The foregoing is based upon a proposed enterprise involving the following chance-ratios:

10% chance of 200% profit
50% chance of 100% profit
40% chance of complete loss of investment.

The arithmetician will find the authors' calculations intriguing. Though the computed result could be made to vary with a change in the given assumptions, it is hardly conceivable that the authors have over-emphasized the effect of corporate taxes on industrial expansion or the growth of new companies.

While the authors apparently are of the opinion that some form of tax relief should be given to growing concerns, they—perhaps unintentionally—make an excellent case against any tax being levied on corporate earnings.

The title embraces "growing enterprises," but the text implies that growth of new or small companies is more to be desired than an equal amount of growth spread over large or well-established concerns. If economy of production is shared by the consuming public, it seems reasonable to assume that growth of efficient well-established concerns would be beneficial also. I am unwilling to accept as proper some of the assertions relating to the advantages of the large corporation over a small corporation in the matter of financing expansion.

It is obvious that the well-established corporation has numerous advantages over the growing concern which has yet to establish a reputation. These advantages do not, however, spell need for discriminatory tax laws in favor of the new company. Some of the advantages which the authors impute to large corporations are fictitious. For example, they refer to large established companies having substantial amounts of funds resulting from *non-cash expenses,* such as depreciation and other accrued items. In my opinion, the accountant can, with justification, quarrel with this conclusion. In the true sense, there are no *non-cash* expenditures. If depreciation reserves are used for expansion, they are not available for replacement of the items actually depreciated. Furthermore, the *actual* advantages of the

* Secretary, The Linen Thread Co., Inc.

well-established corporation are a reward for proved ability and integrity. Surely such reward is proper. I think it fundamental that growth is progressive. The established concern can expand more easily, as should be the case, with perhaps the same progressiveness that marks the yearly growth of a well-established tree over that of a sapling—usually the larger tree has more roots to gather nutrition.

Regardless of the implications concerning real, or purported, advantages of the big company, the basic data and the general text admirably prove the detrimental effect of high corporate taxes on industrial growth.

Academicians, students and legislators should ponder the questions so well developed in this book. Our postwar tax program is more likely to meet the acid test of economic requirements if those who formulate, draft and enact it are familiar with the *Effect of Federal Taxes on Growing Enterprises.*

THE BOGEY OF ECONOMIC MATURITY. By George Terborgh. Machinery and Allied Products Institute, Chicago, 1945. 257 pages. $3.00.

*Reviewed by D. Stevens Wilson**

In *The Bogey of Economic Maturity,* Dr. Terborgh sets himself to the task of analyzing and, thereby, refuting the doctrines of the "mature economy" thesis as an explanation of the depression of the 'Thirties or as a working theory for guiding future policy.

The theory of the mature economy, briefly, is predicated on the belief that the American economy has become moribund—no longer vigorous and expansive. With the slowing down of physical growth comes a shrinkage of opportunity for private investment. Meanwhile savings accumulate and, having no outlet in new capital-consuming industries, set in motion a downward spiral of income and production. We are, therefore, in an era characterized by chronic oversaving and secular stagnation. The situation can be remedied only by intervention of government, which must either prevent excess savings by taxing them out of existence or expand public investment and spending sufficiently to absorb the savings.

The idea of a mature economy was advanced to rationalize the 1929-32 depression and the failure of business activity to recover and again reach a prosperity level. In one of the book's better chapters, Dr. Terborgh points out clearly the inadequacy of this explanation. The decline of population growth in this country had been under way for some 50 years, the geographical frontier was closed before 1900, the financial self-sufficiency of corporations is a phenomenon of long standing—most companies grow by "ploughing back" earnings. That these secular factors can suddenly have operated to bring stagnation in the 'Thirties, while the 'Twenties were one of the most prosperous periods in our history, is rather paradoxical.

In dealing with the stated objective, the presentation is stimulating and provocative. The analysis as a whole is logical, though somewhat labored at times. Some points are better made than others, and some of the statistical analyses appear unnecessarily forced in view of their minor contribution. They suffer, as must any attempt to provide a statistical basis for economic analysis, from the paucity of data bearing on fundamental economic processes. Generally, the author's contention is borne out that "historical and statistical evidence for a stagnationist theory is almost wholly lacking," but so also is conclusive evidence to support the opposing point of view.

Unfortunately, Dr. Terborgh limits his treatment to the appraisal of the theory of economic maturity itself, bypassing any analysis of the cycle forces operating during the past two decades. Thus, while generally disposing of the mature economy doctrines as a satisfactory explanation of business conditions during the 'Thirties, the author makes no attempt to set forth any other explanation or to postulate an hypothesis on which future policies might be based. In this sense, the book is disappointing; it is strictly negative, offering no constructive alternative.

One very important idea merely touched upon by Dr. Terborgh might have been given greater emphasis. We do not have enough evidence nor are we sufficiently familiar with the incidence of taxation to be able to state categorically its effect upon savings and investment. The fact that we had no income tax prior to 1913, and that following World War I tax rates were relatively low, whereas after 1932, by a series of jumps, they were carried well above any previous peacetime rates, needs more thorough examination as to its possible effect on business and consumer expenditures during that period.

The book makes interesting and worthwhile reading apart from its major purpose because of the background it gives of the functioning of the private enterprise economy in this country. In retrospect, we can only wish that less effort had been spent attacking a "bogey man" and more in solv-

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ing the two really important problems which front us, which are, in Dr. Terborgh's words, "to create . . . an environment hospitable to enterprise" and to evolve "means and policies to banish the spectre of prolonged depressions and mass unemployment. This necessity does not derive from the theory of economic maturity but springs rather from experience. . . . That such a catastrophe (a great depression) must be prevented is an axiom of present-day politics. . . . The prevention of its recurrence is henceforth an imperative of economic policy." It is not enough to "hope" and "believe" that this can be done and still "preserve the autonomy of private enterprise and leave its vitality unimpaired." It will require, as the author states, a high order of economic statesmanship, both public and private.

The rejection of the stagnationist theory does not solve any problems, nor does a firm faith in the future strength of private enterprise, which the book proclaims, obviate the need for government action. For, in attacking the problem of recurring depressions, as Dr. Terborgh says, "it is axiomatic, also, that government must play an important role . . . a role that will break new ground and raise problems of exceptional difficulty."

BUDGETING FOR MANAGEMENT CONTROL. By Floyd H. Rowland and William H. Harr. Harper & Brothers, New York, 1945. 378 pages. $4.00.

*Reviewed by F. D. Newbury**

The authors of this volume have had wide practical experience and as a result have produced a valuable reference manual on this important management technique. The treatment is clear and concise, yet sufficiently detailed to be useful in practical applications.

The general plan proposed by the authors combines a fixed budget, based on the forecast of sales budgeted at the beginning of the budget period, and a flexible budget or, as it is called in this book, "activity budget." The budget based on expected sales states the original goal set up, and the "activity budget" states the standard performance as to costs, expenses and profit based on actual sales, in each monthly profit-and-loss statement. Actual performance can, therefore, be compared with the standard based on forecast billings and standard performance based on actual billings. There is a good chapter on the determination of expense standards for variable budget tables, and charts for use in setting up standard performance values for any level of billings or production activity.

* Vice President, Westinghouse Electric Corporation.

One of the important advances in budgetary control over the past 10 years is the growing use of "flexible" budget values in monthly profit-and-loss or income statements, representing standard performance at actual "net sales billed" values.

When "fixed" budget values alone are used in accounting statements, the only really significant and useful budget value is that of sales billed, unless it should happen that the value of actual sales billed is approximatey the same as that of budgeted sales billed. If there is a wide difference, then all succeeding budget figures have no rational relation to the actual figures, and the budget figures are likely to be discredited and neglected.

The authors solve this problem satisfactorily by including both the original forecast budget values in certain over-all statements, and the standard performance "activity budget" values in all accounting statements of operating departments.

There is a proper emphasis on forecasts based on national-income correlations, adequate market studies, and district and salesmen's quotas in reference to a budget based principally on previous years' performance. It is indeed preferable to start from the customer and work back to the detail budgets covering factory operations. But the authors do not, in this reviewer's opinion, give enough space and weight to the difficult and interesting problems connected with estimates of future operations and the problem of forecasting general business conditions. However, the use of "activities budgets" minimizes the deficiencies of the annual billing forecast.

The break-even chart, adequately discussed in the text, is another useful analytical device for management. This chart provides a clear picture of the great danger of increasing fixed expenses, either in facilities beyond the average needs of the business or in "overhead" personnel not actually necessary for effective operation. Facilities and departments which may be desirable but are not essential are frequently added by a company. The regular review of the break-even chart is a desirable check on the trends in this relation between income and expenditures.

The authors have made a valuable contribution to practical budgetary control. The book should help management during the difficult postwar adjustments ahead in reducing costs and expenses and holding down prices despite increasing labor rates.

Briefer Book Notes

[*Please order books directly from publishers*]

AMERICAN LABOR UNIONS: *What They Are and How They Work.* By Florence Peterson. Harper & Brothers, New York, 1945. 338 pages. $3.00. This work describes in terse and readable form how labor unions perform their functions and conduct their daily affairs. After a brief historical summary of the development of labor organizations, Mrs. Peterson discusses the structure, rules and qualifications for membership, government and finances of the numerous unions and the federated bodies. Methods of carrying on collective bargaining are discussed and special attention paid to developing educational activities of unions. The author is Director of the Industrial Relations Division of the Bureau of Labor Statistics, U. S. Department of Labor.

THE PHYSICALLY IMPAIRED—A GUIDEBOOK TO THEIR EMPLOYMENT. National Conservation Bureau, Association of Casualty and Surety Executives, New York, 1945. 34 pages. Gratis. This booklet outlines briefly a complete program to guide employers in the placement of persons who have suffered physical disabilities, but who are still quite competent to become safe and efficient workers.

BUSINESS JOURNALISM—ITS FUNCTION AND FUTURE: *The Story of "Know How."* By Julien Elfenbein. Harper & Brothers, New York, 1945. 341 pages. $4.00. An authoritative manual of trade paper practice for editors, publishers, advertising agencies, teachers, writers, etc.

MATCHING THE PHYSICAL CHARACTERISTICS OF WORKERS AND JOBS. By Bert Hanman. (A study published in *Industrial Medicine,* May, 1945.) Industrial Medicine Publishing Company, Chicago. 24 pages. A valuable study of existing practices in the United States for correlating the physical characteristics of workers with specific jobs. Many plans of both industry and government are presented.

THE E.R.N. MARK-UP CALCULATOR. By Allen W. Rucker and Frederick H. Nickels. The Eddy-Rucker-Nickels Company, Cambridge 38, Mass., 1945. Spiral binding. $2.50. Contains 81 markup tables, showing the correct selling price on any merchandise costing from $.01 to $1,000—with 810 different markups, ranging from 30.0 per cent on cost (23.08 per cent of selling price) by one-tenth of a per cent to 110.9 per cent on cost (52.58 per cent of selling price).

PUBLICATIONS RECEIVED

[*Please order directly from publishers*]

WORK SIMPLIFICATION: *As Exemplified by the Work Simplification Program of the U. S. Bureau of the Budget.* (Publication No. 91.) Public Administration Service, Chicago, Illinois, 1945. 49 pages. $1.00.

COUNSELING SERVICE FOR INDUSTRIAL WORKERS. By Mary Palevsky. Family Welfare Association of America, New York, 1945. 51 pages. 60 cents.

HOW TO GET THE JOB *You* WANT! By John W. Herdegen. Essential Books, Inc., New York, 1945. 92 pages. $1.00.

BUSINESS EXECUTIVE'S GUIDE: *A Check List on Problems of Organization, Finance, Taxes, and Management.* By J. K. Lasser. McGraw-Hill Book Company, Inc., New York, 1945. 252 pages. $3.00.

JOB SAFETY TRAINING MANUAL. By Kenneth L. Faist. National Foremen's Institute, Inc., Deep River, Conn., 1944. 52 pages. $5.00.

UNION SECURITY PLANS: *Maintenance of Membership and the Check-off. Bulletin No. 10,* Department of Industrial Rela-

tions, Queen's University, Kingston, Ontario, Canada, 1945. 59 pages. $1.00.

THE PIRATES WILL GET YOU! *A Story of the Fight for Design Protection.* By Sylvan Gotshal and Alfred Lief. Columbia University Press, New York, 1945. 103 pages. $2.00.

MATERIALS HANDBOOK: *An Encyclopedia for Purchasing Agents, Engineers, Executives, and Foremen.* By George S. Brady. Fifth Edition, Third Impression. McGraw-Hill Book Company, Inc., New York, 1944. 755 pages. $5.00.

NEW GOALS FOR OLD AGE. Edited by George Lawton. Columbia University Press, New York, 1943. 210 pages. $2.75.

THE PLACEMENT INTERVIEW. *Civilian Personnel Pamphlet No. 15,* War Department, Washington 25, D. C. 17 pages.

OFFICE PLANNING AND LAYOUT. Policyholders Service Bureau, Metropolitan Life Insurance Company, New York. Gratis. (Available in limited quantities on request of executives of policyholder member companies.)

THE BRANCH PLANT TREND IN INDUSTRY. By Graham Woodward Parker. Parker & Strackbein, 230 Park Avenue, New York 17, N. Y., 1945. 10 pages. Gratis.

SPEAK WELL—AND WIN! *A Short Cut to Results.* By William P. Sandford. Whittlesey House, New York, 1944. 176 pages. $2.00.

PRIVATE MONOPOLY: *The Enemy at Home.* By David Lasser. Harper & Brothers, New York, 1945. 306 pages. $3.00.

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STATEMENT OF THE OWNERSHIP, MANAGEMENT, CIRCULATION, ETC., REQUIRED BY THE ACTS OF CONGRESS OF AUGUST 24, 1912, AND MARCH 3, 1933.

Of THE MANAGEMENT REVIEW, published monthly at New York, N. Y., for October 1, 1945.

State of New York }
County of New York } *ss.*

Before me, a Notary Public in and for the State and county aforesaid, personally appeared James O. Rice, who, having been duly sworn according to law, deposes and says that he is the Editor of THE MANAGEMENT REVIEW and that the following is, to the best of his knowledge and belief, a true statement of the ownership, management (and if a daily paper, the circulation), etc., of the aforesaid publication for the date shown in the above caption, required by the Act of August 24, 1912 as amended by the Act of March 3, 1933, embodied in section 537, Postal Laws and Regulations, printed on the reverse of this form, to wit:

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JAMES O. RICE, Editor.

Sworn to and subscribed before me this 6th day of September, 1945.

(Seal)

THOMAS P. BARNWELL, Notary Public.
(My commission expires March 30, 1946.)

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